LIBERALIZING TRADE IN TOURISM SERVICES UNDER THE CARIFORUM EU ECONOMIC PARTNERSHIP AGREEMENT IN THE OECS: EXAMINING ITS EFFECT ON TOURISM DEMAND AND TOURISM RELATED FOREIGN DIRECT INVESTMENT

Alistair ALLEYNE

Submitted for the Degree of

Doctor of Philosophy

School of Management

Faculty of Management and Law

University of Bradford

2019

Abstract

Alistair Alleyne

Liberalizing Trade in Tourism Services Under the CARIFORUM EU Economic Partnership Agreement in the OECS: Examining its Effect on Tourism Demand and Tourism Related Foreign Direct Investment.

Keywords: Tourism, Services, CARIFORUM, Tourism Demand, Trade, Liberalization, Foreign Direct Investment

This thesis is a study on the liberalization of trade in tourism services that has taken place between the European Union and Organisation of Eastern Caribbean States (OECS) under the Caribbean Forum (CARIFORUM) -European Union (EU) Economic Partnership Agreement (EPA). It focuses on Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. They are all members of the OECS, the Caribbean Community and Common Market (CARICOM) and CARIFORUM and they are EPA signatories.

Using Panel Auto Regressive Distributed Lag modelling, the study is the first to empirically test the effect of liberalizing trade in tourism services (proxied by the EPA) on inflows of tourism related foreign direct investment and European tourism demand regarding the aforementioned countries. It focuses on the period 1997 – 2013.

The results indicate that Gross Domestic Product Per Capita (GDPPC) is a statistically significant determinant of tourism related foreign direct investment. This supports the established hypothesis that market size measured by GDP per capita is a key determinant of FDI. Inflation rate (IR) and trade openness (OPEN) are also significant determinants of tourism related foreign direct investment whilst the EPA is not. Regarding European tourism demand income, prices, prices in a substitute destination and room supply are statistically significant determinants in the long run. Barbados is viewed as a complementary destination to the OECS EPA signatories. However, in the short run the EPA is not a statistically significant determinant of European tourism demand which it negatively affects.

Acknowledgements

I thank God for bringing me to the end of this course, my mother for encouraging me to pursue this course of study, my sisters, my father as well as my cousins and friends for constantly checking on me over the past five years.

Additionally, I thank my supervisors Dr. Mark Baimbridge and Dr. Dariya Mykhayliv for all their advice and guidance throughout my period of study which was invaluable in helping me to complete the study.

I would also like to the following individuals who sent me statistical data and other information when I requested it as well as those who gave me permission to use copyrighted material.

Mr. Vanroy Agard	The Ministry of Sustainable Development, St. Kitts
Ms. Roselieu Augustin	Saint Lucia Tourist Board
Dr. Pamela Benjamin	Ministry of Finance – Commonwealth of Dominica
Dr. Philemon Harris	CARICOM Statistics Programme
Ms. Monique Jacob	Discover Dominica
Mr. Colin James	The Antigua and Barbuda Tourism Authority
Ms. Anneke Jessen	Inter-American Development Bank
Ms. Shermalon Kirby	Eastern Caribbean Central Bank
Mr. Elingford Roban	St. Vincent and the Grenadines Tourism Authority
Ms. Gatlin Roberts	Ministry of Finance and Economic Planning St. Vincent and the Grenadines
Ms. Esther Thomas	Grenada Tourism Authority
Mr. Duane Vinson	SHARE Center

Ms. Lavonne Williams	The Ministry of Economic Planning and Sustainable Development – St. Vincent and the Grenadines

Table of Contents

List of Figures

List of Tables

Glossary

ACP	African Caribbean and Pacific
ARDL	Autoregressive Distributed Lag
BDSCPI	Barbados Consumer Price Index
BOP	Balance of Payments
CARICOM	Caribbean Community and Common Market
CARIFORUM	Caribbean Forum
CARIFTA	Caribbean Free Trade Agreement
CGE	Computable General Equilibrium
CSM	Caribbean Single Market
CSME	Caribbean Single Market and Economy
CTO	Caribbean Tourism Organisation
DFE	Dynamic Fixed Effect
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EPA	Economic Partnership Agreement
ETA	European Tourist Arrivals
EU	European Union
EUGDPPC	European Union Gross Domestic Product Per Capita
FCCA	Florida Caribbean Cruise Association
FCOR	French Caribbean Outermost Regions
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDPPC	Gross Domestic Product Per Capita
GFC	Global Financial Crisis
IMF	International Monetary Fund
IR	Inflation Rate

LDC	Least/Lesser Developed Countries
MFN	Most Favoured Nation
MNC	Multinational Corporation
MNE	Multinational Enterprise
OECS	Organisation of Eastern Caribbean States
OECSCPI	Organisation of Eastern Caribbean States Consumer Price Index
OPEN	Trade Openness
PMG	Pooled Mean Group
PPML	Poisson Pseudo Maximum Likelihood
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RS	Room Supply
RTA	Regional Trade Agreement
SPS	Sanitary and Phyto Sanitary
TBT	Technical Barriers to Trade
TFDI	Tourism Related Foreign Direct Investment
UNWTO	United Nations World Tourism Organisation
WISA	West Indies Associated States
WTO	World Trade Organisation
WTTC	World Travel and Tourism Council

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This thesis is a study which focuses on the liberalization of trade in tourism services also known as tourism liberalization that has taken place between the European Union (EU) and the Organisation of Eastern Caribbean States (OECS).

The liberalization of trade in tourism services is an outcome of the Caribbean Forum (CARIFORUM)[1] – European Union (EU)[2] Economic Partnership Agreement (herein after the EPA). It is the result of reservations as well as market access and national treatment limitations that are outlined in sections 9 A and D of Annex 4F of the EPA which are applicable to establishments and investors from the European Union. Section 9 relates to the tourism sector and the above sub sections concern Hotels and restaurants and Other respectively.

CARIFORUM, encompasses the Dominican Republic and all of the members of the Caribbean Community and Common Market (CARICOM)[3] the premier regional trading bloc except Montserrat. Within CARICOM is the sub-regional grouping the Organisation of Eastern Caribbean States (OECS) which is comprised of ten members. Three – Anguilla, the British Virgin Islands and Montserrat are United Kingdom colonies and are not EPA signatories. The newest members are Guadeloupe and Martinique both French overseas departments. The remaining six Antigua and Barbuda, Dominica, Grenada, St Christopher and Nevis, St. Lucia and St. Vincent and the Grenadines, the founding members apart from Montserrat are independent countries, EPA

[1] Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago

[2] Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

[3] All CARIFORUM members except Dominican Republic.

signatories and are the focus of this study. This is because their economies are dominated by the exports of tourism services.

On Wednesday, October 15, 2008 the EU and all of the CARIFORUM member states except Guyana and Haiti signed the EPA at the EU headquarters in Bridgetown, Barbados. On Monday, October 20, 2008 Guyana's Ambassador to the EU signed the EPA on behalf of Guyana at the EU headquarters in Brussels. Haiti signed the EPA on December 10, 2009. Also, on Monday, January 25, 2010 the Bahamas initialled its EPA trade in services and investment commitments with the EU which it was unable to do before.

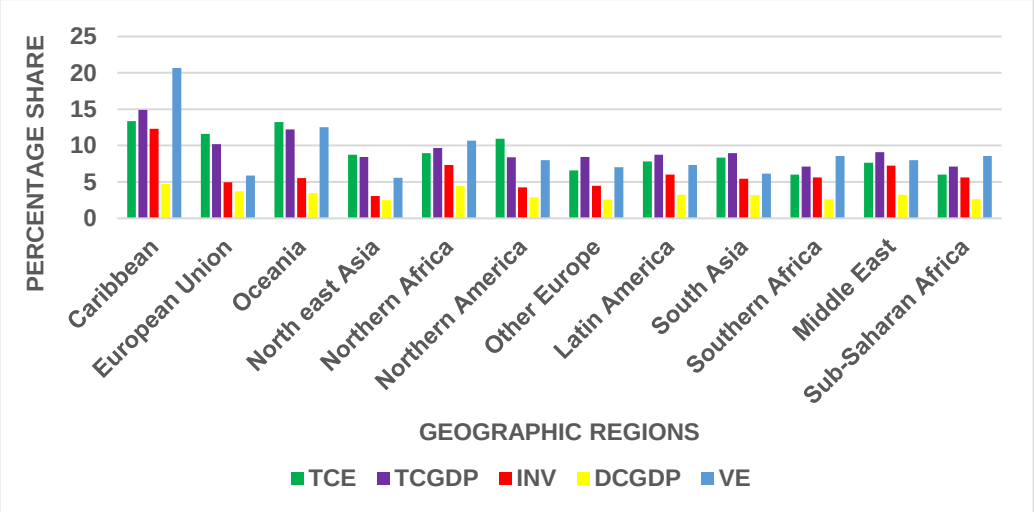
The EPA is a regional trade agreement that provisionally entered into force on December 29, 2008 as (Mc Lean et al 2014) noted. It is characterised by asymmetrical liberalization concerning both trade in goods and services according to (Humphrey 2008). Regarding the former CARIFORUM agreed to liberalise 83% and 87% of imports from the EU within the first 15 and 25 years respectively as (Girvan 2008a: 12) stated. Meanwhile, the EU agreed to liberalize all imports from CARIFORUM countries. In relation to the latter, the Dominican Republic, the More Developed Countries (MDCs)[4] and the Lesser Developed Countries (LDCs)[5] of CARIFORUM have liberalised 84%, 75% and 65% of their service sectors respectively. However, the EU has gone further than its CARIFORUM trading partners and liberalised 94% of its services sectors according to (Humphrey 2010: 3). Apart from this the EPA is a wide-ranging treaty which covers traditional subjects regarding trade policy including (rules of origin, anti-dumping and countervailing measures) and new issues also such as competition policy, public procurement, intellectual property, investment, sustainable development, development cooperation and regional integration according to (Gonzales (2017: 182). The EPA has also been described as 'WTO Plus' by (Girvan 2008: 3-4) because some of these new subjects it covers had been rejected for inclusion in previous multilateral trade negotiations. Given these circumstances the EPA has described as a historic trade agreement since it

[4] Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.
[5] Antigua and Barbuda, Belize, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

replaces earlier agreements that were premised on asymmetric preferential trade in goods only as (Mohammed 2009) argued.

The reason why trade in tourism services was chosen for liberalization relates to its economic importance in the region. Statistics from the World Travel and Tourism Council Report (2017) for 2016 indicate that the Caribbean is the most tourism dependent region globally. In the Caribbean, travel and tourism's direct contribution to Gross Domestic Product (DCGDP) and total contribution to Gross Domestic Product (TCGDP) were 4.8% and 15.2% respectively. Its direct contribution to employment (DCE) and total contribution to employment (TCE) was 4.3% and 13.8% respectively. The contribution of travel and tourism investment to total investment (INV) was 12.9% while visitor exports (VE) contribution to total exports was 19.8%. In the categories concerning total direct contribution to GDP, total contribution to GDP, total contribution to employment, investment and visitor exports the Caribbean was ranked first in regional rankings concerning relative contribution (See Figure 1).

FIGURE 1. REGIONAL RANKINGS RELATIVE CONTRIBUTION 2017



TCE –TOTAL CONTRIBUTION TO EMPLOYMENT, TCGDP - TOTAL CONTRIBUTION TO GDP, INV-INVESTMENT DCGDP – DIRECT CONTRIBUTION TO GDP, VE – VISITOR EXPORTS.

SOURCE: WORLD TRAVEL AND TOURISM COUNCIL TRAVEL AND TOURISM ECONOMIC IMPACT 2018 – CARIBBEAN.

Given the importance of the tourism sector to the economy of the Eastern Caribbean this work will be very important. It will help us understand what effect liberalizing trade in tourism services under the EPA has had on tourism related foreign direct investment and tourism demand which has never been addressed previously in the literature concerning the EPA (See Appendix 1).

1.2 AIM

The aim of this piece of research is to examine some economic effects of liberalizing trade in tourism services which has taken place because of the EPA. The study is seeking to ascertain how this trade policy reform will affect the inflows of tourism related foreign direct investment and European tourism demand concerning the OECS EPA signatories. Consequently, the study which is empirical in nature will model the impact of the EPA on these two aspects of the tourism sector in the six aforementioned microstates.

1.3 OBJECTIVES

The objectives of this study are fivefold. First, it will provide background information on events which led to the establishment of the OECS. It also addresses the issue of service liberalization in the Caribbean, examines why trade in tourism services were included in the EPA for liberalization by highlighting to its importance to OECS economies before focusing on foreign direct investment in the Eastern Caribbean. Second, it will examine a range of theoretical literature that may usefully inform the study among these are the main international trade theories, regional theory, theories of foreign direct investment, theories regarding the multinational enterprise and theoretical literature on tourism demand. Third, it critically reviews five sets of contextual literature. These pertain to the CARIFORUM EU EPA, the liberalization of trade in tourism services, the liberalization of trade in services in the Caribbean, foreign direct investment in the Eastern Caribbean and tourism in the Caribbean from 2000 to the present. A review of the preceding literature sets has indicated the following

(1) There is a paucity of research on the liberalization of trade in services in the Caribbean. Since 2002 only two articles have been written on the issue. (ECLAC 2002) focused on the telecommunications sector whilst, (Sabune 2008) focused on the financial sector.

(2) This assertion is also true regarding the liberalization of trade in tourism services regarding the Caribbean. This may be attributed to its recent emergence as a trade policy issue in the Caribbean, a lack of interest on the part of academics or because of a lack of data. Thus far, only three reports have focused on tourism liberalization in the region. Two Sustainability Impact Assessment (SIA) reports have been produced by (PricewaterhouseCoopers 2004) and (Jules 2005). They both focused on economic, environmental and social impacts of tourism liberalization. Also, both SIA reports have indicated that liberalizing trade in tourism services positively affects a country's tourism sector, its Gross Domestic Product (GDP) and inflows of inward foreign direct investment (FDI).

(PricewaterhouseCoopers 2004) report indicated there would be increases in the production of tourism services of 7.78% and 3.26% for Jamaica and Trinidad respectively under the EPA. Regarding GDP increases of 0.75% in Jamaica and 0.42% in Trinidad were also predicted. This growth in GDP would spur an increase in government revenue of 0.34% and 0.56% in Jamaica and Trinidad and Tobago respectively. This observation can possibly explain why countries have been rapidly liberalizing trade concerning their services sectors. Additionally, (PricewaterhouseCoopers' 2004) study was predictive in nature. It is the only study that has attempted to model the effect of the EPA on the tourism sector in the Caribbean. The third report is a case study on tourism services liberalization in Barbados by Ward and Sauvé (2009).

(3) Over the years some articles have been written on FDI in the Caribbean on various issues. However, only a few articles by (Te Velde and Nair 2006), (Moore and Craigwell 2008), (Van Parys and James 2010) have focused directly on FDI concerning tourism in the Caribbean. Also, ECLAC's 2015 and 2016 Reports on FDI in Latin

America and the Caribbean contain small sections on Tourism FDI in the Caribbean.

(4) Additionally, to the best of my knowledge there has been no previous study on the EPA and tourism.

(5) Again, to the best of my knowledge no study has modelled the effect of the EPA on inflows of foreign direct investment destined for the tourism sector of OECS EPA signatories. The same can be said regarding the existence of any research modelling the effect of the EPA on European tourism demand concerning the microstates which are the subject of the study since the EPA's signing in 2008.

Fourth, the project aims to empirically test the effect of liberalizing trade in tourism services on inflows of tourism related foreign direct investment to the OECS EPA signatories for the period 1997-2013. The empirical analysis will be undertaken through the application of a Panel ARDL modelling that will test the effect of several independent variables on inflows of tourism related FDI to Antigua, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. The main variable of interest in this case is a dummy variable – tourism liberalization – which is proxied by the EPA. Fifth, the thesis seeks to predict the impact of liberalizing trade in tourism services under the EPA on tourism demand in relation to the aforementioned EPA signatories. This will be executed using the Panel ARDL technique to test the effect of several independent variables on European tourism demand for the OECS EPA signatories. Again, the main variable of interest is the dummy variable – tourism liberalization – which is proxied by the EPA.

1.4 RESEARCH QUESTIONS

Based on the above observations it is evident that a gap exists in the literature as no research has yet modelled the effect of the EPA on the OECS tourism sector concerning the two aforementioned aspects. My research will be an original contribution to the body of knowledge as it seeks to close this gap. Therefore, the research questions of this study will be as follows

(1) What effect will the liberalization of trade in tourism services under the CARIFORUM EU EPA have on inflows of tourism related foreign direct investment in the Eastern Caribbean?

(2) What effect will the liberalization of trade in tourism services have on European tourism demand for the OECS EPA signatories?

These research questions have been developed based on the following two hypotheses -:

Liberalizing trade in tourism services under the EPA will have a positive effect on inflows of tourism related foreign direct investment in the OECS EPA signatories.

Liberalizing trade in tourism services under the EPA will have a positive effect on European tourism demand concerning the OECS EPA signatories.

1.5 MOTIVATION

The choice of topic for this doctoral study was influenced by several factors. First, interest in the topic of tourism liberalization to ascertain whether by liberalizing trade in tourism services the OECS EPA signatories will benefit from increased inflows of foreign investment to the tourism sector. Second, tourism services liberalization is a new trade policy development in the Caribbean. This is the first time that any of the regional groupings within the African Caribbean and Pacific (ACP) group of states has liberalized trade in services with the EU. Previously, the Lomé and Cotonou Agreements which governed trade relations between Europe and the ACP focused only on trade in goods. Third, the subject is a topical issue within the context of EPA negotiations which are still on-going between the EU and African and Pacific trading blocs which have not yet signed full EPAs and liberalized trade in services.

The combination of these factors has served as the key motivator influencing the decision to undertake this study.

1.6 STRUCTURE AND OUTLINE

Chapter One introduces the topic of the study the liberalization of trade in tourism services. It also outlines the aim, the objectives of this piece of research, the motivation for undertaking this project and it sets out the structure of the dissertation.

Chapter Two provides background information on the development of the OECS. In the process, it outlines the historical overview of Caribbean – EU trade relations explaining how they began moving away from preferential trade under the Lomé Agreements to a fully liberalized trade regime under the EPA which now extends to services. It also addresses some important themes of the study such as economic integration in the Caribbean, inter-regionalism, intra-regionalism and services liberalization before it focuses on foreign direct investment in the OECS.

Chapter Three examines literature on a range of theories concerning international trade to ascertain which of them is most useful of informing this study which is concerned with the liberalization of trade in services. First the chapter examines the classical trade theories. Next it examines regional trade theory since the thesis focuses on trade between two regional trading arrangements. It then focuses on New Trade Theory which developed in the late 1970's/early 1980s. Afterwards the period of 'new regionalism' which had a significant influence on the liberalization of trade in services is examined. The final aspect of trade theory focuses on New New Trade Theory which is outlined and the link to trade in services is established.

Chapter Four outlines the theoretical literature pertaining to both research questions. First it examines, the main theories pertaining to foreign direct investment including those concerning the multinational enterprise since it is these commercial entities which engage in foreign direct investment. Other theories concerning foreign direct investment are also examined. Second, the chapter highlights theories applicable to tourism demand and then reviews the economic theories which can be applied to tourism demand before stating which is most applicable in the context of the study. The chapter then concludes.

Chapter Five reviews six sets of contextual literature being used to inform this study and are reviewed in the following order:

The CARIFORUM EU EPA, the liberalization of trade in tourism services, the liberalization of trade in tourism services in the Caribbean, tourism in the Caribbean, the liberalization of trade in services in the Caribbean and foreign direct investment in the Eastern Caribbean. The literature sets concerned with the CARIFORUM EU EPA and Tourism in the Caribbean focus on the period 2000 to the present. This is significant as it encompasses the years when the Cotonou Agreement was signed in 2000, which was the precursor to the EPA. This period also encompasses the years of the EPA negotiations between the EU and the six African Caribbean and Pacific regions which began in 2002 and it is also when the first full EPA (the CARIFORUM EU EPA) was signed in 2008 between the EU and CARIFORUM states. By focusing on the post 2000 period it will be made clear whether academics had published anything related to the EPA and the tourism sector in the Caribbean. Ultimately, this chapter will highlight that there is an existing gap in the academic literature concerning empirical analysis on how the EPA which has liberalized trade in tourism services will affect inflows of tourism related foreign direct investment and European tourism demand to the Organisation of East Caribbean States EPA signatories.

Chapter Six models the effect of the EPA which has liberalized trade in tourism services on inflows of tourism related foreign direct investment. It also illustrates which theory of the multinational enterprise is best suited for describing the situation regarding foreign direct investment in the tourism sector in the OECS EPA signatories. Additionally, it reviews the literature on tourism related foreign direct investment in the Caribbean. Subsequently, the variables of the econometric model to be used in the study are outlined and a Panel ARDL model will be estimated to empirically test the effect of the EPA on inflows of foreign direct investment to the tourism sector.

Chapter Seven empirically tests how the liberalization of trade in tourism services proxied by the EPA will affect European tourism demand for the OECS EPA signatories. The chapter first briefly reviews how service liberalization occurred and then grew as a result of the changing character of regional trade agreements. Next it acknowledges the existence of a trade-tourism relationship in the OECS and a review of the literature shows that there is nothing written on the Caribbean and how a trade agreement affects tourism demand. Afterwards the economic

theory which is best suited to explain tourism demand is briefly reviewed again. Literature on tourism demand in the Caribbean is the reviewed before the variables used in the econometric modelling are described and the data sources identified. The penultimate section of the chapter then specifies the empirical methodology to be used and several diagnostic tests are performed before the results generated from the econometric model are then analysed before conclusions are outlined.

Chapter Eight presents a summary of each chapter before highlighting the unique features of the study. It then outlines its limitations and next focuses on the key lessons to be learnt from undertaking this study. Finally, it outlines recommendations concerning the way forward for future studies on the topic which can be extended to the wider CARIFORUM grouping, the Pacific grouping and any of the African groupings if they ever conclude full EPAs with the European Union resulting in the liberalization of trade in tourism services.

CHAPTER TWO

BACKGROUND

2.1 INTRODUCTION

This chapter provides background information on the genesis and development of the OECS and how trade in tourism services came to be liberalized between the EU and OECS. Additionally, it outlines the role of the tourism sector and foreign direct investment in the sub-regional economies. Ultimately, it will show how the overarching themes of this doctoral study namely regionalism, services liberalization, trade in tourism services and foreign direct investment are all inter-related in the context of this study. The rest of the chapter is set out as follows.

Section two, is first concerned with the historical dimension of the economic integration process in the Caribbean and the Caribbean-European trading relationship. Thus, attention first focuses on the former where a series of events from 1958 -1973 which led to the development of several regional economic integration structures is outlined. Subsequently, the section concentrates on the latter illustrating how trade relations with the then Europe Economic Community (EEC) in the post 1973 period influenced the development of regional integration in the Caribbean leading to the establishment of CARICOM. It also offers a short narrative of how CARICOM has developed to encompass the current OECS EPA signatories and other CARICOM members.

Section three, focuses on the OECS outlining when it was formed by its founding members and how its membership has expanded. Also, it describes some socio-economic characteristics of OECS EPA signatories and highlights their trading patterns. Additionally, some economic data illustrating the limited capacities of these microstates is provided as a segue to understand what caused the development of this sub-regional bloc. Also, it is recognised that there has been a deepening of economic integration to the level of an Economic Union which has liberalized trade in services at the sub-regional level. The section then examines

the role and functions of some internal units whose mandates are concerned with trade and tourism matters.

Section four, examines the successive trading arrangements between Europe and the Caribbean that applied to the OECS including the Lomé Agreements, the Cotonou Agreement and the CARIFORUM – EU Economic Partnership Agreement. This analysis shows that the trading relationship between Europe and the Caribbean has evolved from one characterised by non-reciprocal goods trade to one where there is full liberalization of trade in goods and services and it includes some new subjects such as competition policy, procurement, intellectual property and investment.

Section five illustrates in detail how service liberalization occurred at the multilateral level and then regionally. Regarding the former, its historical development culminating in the General Agreement on Trade in Services (GATS) is traced. It also outlines the 4 modes of trading services. Next, it is shown which service sectors the OECS EPA signatories have committed to liberalize under the GATS before focusing solely on tourism services. Concerning the latter regional services liberalization is then explained, first intra regionally and then inter-regionally concerning trade agreements signed by CARICOM and several Caribbean, Central and South American which apply to the OECS. The analysis will reveal that the EPA is more thorough in its treatment of the liberalization of trade in services than the other trade agreements examined in the section given the economic importance of trade in services to the OECS EPA signatories. Data for the period 1980 to 2010 concerning trade in services percentage share of GDP for the OECS EPA signatories, the EU and the world is then presented, discussed and analysed. The section concludes by acknowledging that only the CARICOM-Cuba trade agreement and the EPA contain provisions on tourism services and that the treatment of tourism under in the EPA is subject of section six.

Section six highlights the treatment of tourism in the EPA which liberalized trade in tourism services between the EU and OECS. It will illustrate that the Caribbean Negotiators adopted a positive list approach to the scheduling of commitments.

Afterwards, the commitments made by OECS EPA signatories concerning the liberalization of trade in tourism services are outlined and during the process it is shown that the EPA is 'GATS Plus' in nature. Put differently the commitments therein exceed those which were outlined in the GATS.

Section seven provides background information on the tourism sector thereby highlighting its economic importance to the sub-region. It then indicates that the tourism sector has significantly influenced the inflows of foreign direct investment to the region since the 1990s before illustrating that FDI overall is responsible for much of the economic activity in OECS EPA signatories. The chapter then concludes.

2.2 THE ECONOMIC INTEGRATION PROCESS IN THE CARIBBEAN AND THE CARIBBEAN-EUROPEAN TRADING RELATIONS: THE HISTORICAL DIMENSION.

To understand how the liberalization of trade in tourism services between the EU and OECS became a reality it is imperative to conduct a combined historical review of the economic integration process in the Caribbean and the Caribbean-European trading relationship. In doing so, the highly influential role which Europe has played and continues to play concerning trade and economic integration matters in the Caribbean will be clearly illustrated. Performing this exercise will also highlight the complexities associated with this project given the many forms and levels of economic integration existent in the Caribbean. These many forms of integration are indicative of how dynamic a process regionalism is within the Caribbean. This historical review will also demonstrate how other forces (the impending EPA, the establishment of the World Trade Organisation (WTO) and new a global trading environment) influenced the emergence of the trade policy reform.

2.2.1 THE ECONOMIC INTEGRATION PROCESS IN THE CARIBBEAN AND THE EUROPEAN INFLUENCE.

The idea that Europe's influence on the economic integration process in the Caribbean has been very strong is beyond any doubt whatsoever. This was illustrated by (Revauger 2008) who provided a historical review of the entire process whilst analysing the role of the European Union**.**

The struggle towards becoming economically integrated in the Caribbean leading to the establishment of the OECS can be traced back to the 1950's. In 1958, one year after the European Economic Community (EEC) was established the West Indies Federation was formed. It was comprised of some of the British colonies in the Caribbean at that time[6]. The decision to form such a grouping was not home grown; rather, it was one which emanated from the corridors of Whitehall in London. However, this experiment was short lived as it collapsed in 1962 when Jamaica and Trinidad and Tobago withdrew each gaining independence separately (O'Keefe 2010). This sequence of events inspired the remaining territories Barbados, the four Windward Islands (Dominica, Grenada, St. Lucia and St. Vincent) and the three Leeward Islands (Antigua and Barbuda St. Kitts-Nevis-Anguilla and Montserrat) to continue negotiations with the British government for a new federation as (Revauger 2008: 859) noted. This was facilitated through the establishment of a Regional Council of Ministers comprising of the Heads of Government of each territory. When these discussions disintegrated Barbados subsequently gained independence in 1966 while the other islands were granted a new constitutional status of Associated Statehood in the United Kingdom. In 1966, it was agreed that a new entity to succeed the Council would be established and it would include Montserrat. It would be called the West Indies Associated States Council of Ministers (or WISA Council as it came to be known) and from 1967 was based in St. Lucia. By 1968 the Caribbean Free Trade Association (CARIFTA) which had been formed three years earlier in 1965 by the then political leaders of Antigua and Barbuda,

[6] Antigua and Barbuda Barbados Dominica Grenada Jamaica St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines and Trinidad and Tobago.

Barbados, and Guyana had become operational and all the former members of the Federation had joined. Also, on June 11, 1968 the Eastern Caribbean Common Market (ECCM) had been formed. Its members were the same islands which constituted the WISA Council. (Ishmael 2006: 43) noted the entity would "contribute to their rapid economic growth by promoting closer economic relations, increased economic stability and harmonious and continued development."

In 1972 the then Heads of Government in CARIFTA decided among themselves that it would be better to engage with the EEC as a single entity. Thus, in 1973 Prime Ministers Errol Barrow of Barbados, Forbes Burnham of Guyana, Michael Manley of Jamaica and Dr. Eric Williams of Trinidad and Tobago signed the Treaty of Chaguaramas to establish the CARICOM on July 4, 1973. This was probably influenced by the decision of the United Kingdom to join the EEC on January 1, 1973. (Axline 1978: 958) first acknowledged the UK's influential role on the integration process in the Caribbean by stating "Catalyzed by the United Kingdom's application to enter the European Economic Community and by the signing of an agreement by Antigua, Barbados and Guyana, officials of the region met in August 1967 to establish a region-wide free trade area.". Consequently, the United Kingdom's Caribbean colonies and some former Caribbean which were now newly independent states and which were all CARIFTA members were being influenced by the very presence of the EEC to become united for the purpose of engaging in international trade negotiations. Similar sentiments were expressed by (Grenade 2004:4) who was more analytical concerning the role of political developments in the English-speaking Caribbean which propelled the region's economic integration process.

2.2.2 CARIBBEAN-EUROPEAN TRADE RELATIONS

Trade between Europe and the British[7], Danish[8], Dutch[9], French[10] and Spanish[11] Caribbean had been taking place for several centuries. The commercial relationship between the English-speaking Caribbean and Europe was strengthened particularly after the United Kingdom joined the EEC in 1973. It was a direct result of the region's colonial history since many of the islands in the Caribbean were former British colonies. The position concerning the region has been summarised by referring to the ACP group of states. (Woolcock 2007: 5) opined "A second category of preferential agreements negotiated by the EU concerns those with the African, Caribbean and Pacific (ACP) states. The agreements with these countries are due to the colonial legacy of some EU Member States."

The move on the part of the British Government to join the EEC in 1973 meant that it had accepted the *'acquis communautaire'* – all the previous European treaties on economic integration – as part of the laws of the United Kingdom. Therefore, European Community law took precedence over domestic British law. This was the result of the ruling in the landmark case of Costa v E.N.E.L (1964) which established the principle of supremacy of European Community law where there was conflict with domestic law.

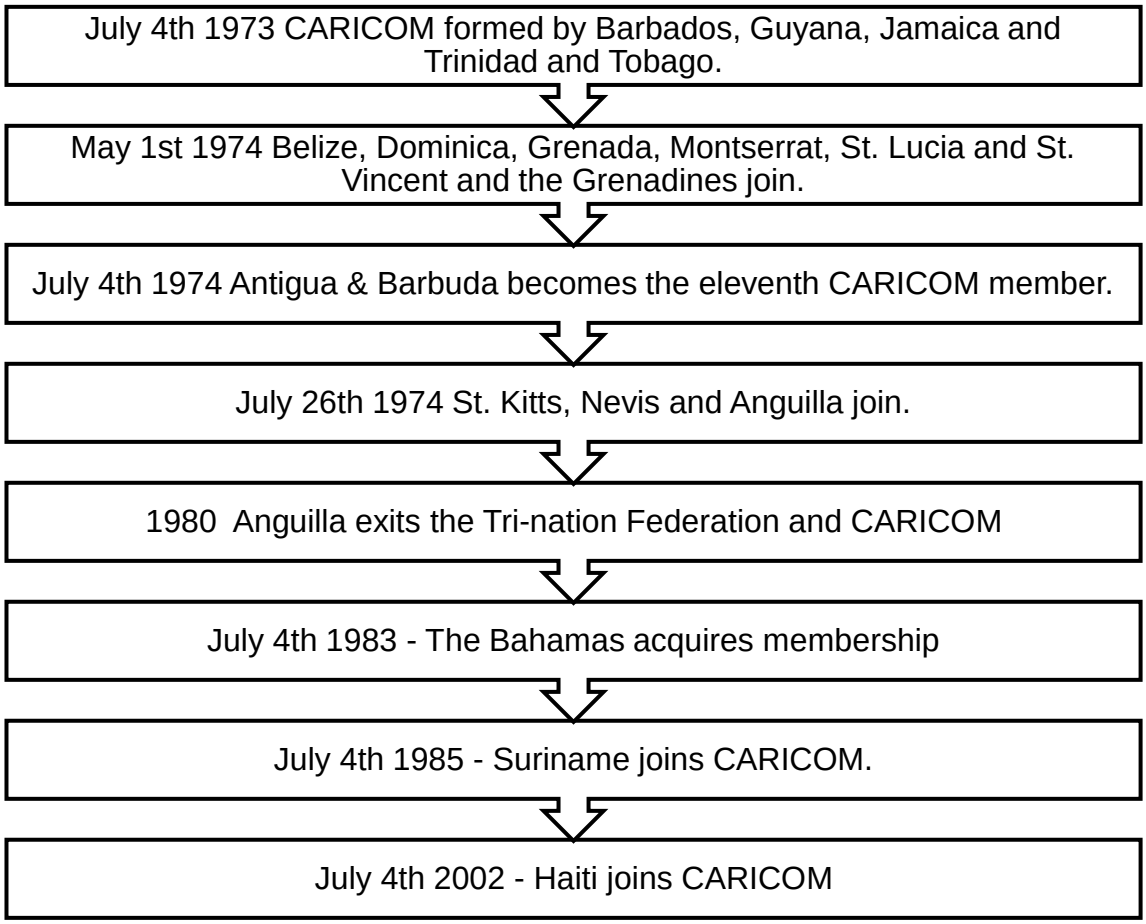
Joining this trading bloc altered the way in which the United Kingdom would conduct international trade with its colonies and former colonies and other countries worldwide. The European Commission had now acquired all responsibility for negotiating all trading arrangements on behalf of all bloc member countries. Hence, Europe's trade policy replaced that of the United Kingdom. Thus, Europe was now well positioned to directly influence the

[7] Anguilla, Antigua & Barbuda, Barbados, The Bahamas, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago
[8] St. Croix, St. John and St. Thomas (until 1917).
[9] Aruba, Bonaire, Curacao, Saba, Sint Maarten, Sint Eustatius and Suriname.
[10] French Guiana, Guadeloupe, Haiti, Martinique and St. Martin.
[11] Cuba, Dominican Republic and Puerto Rico.

integration process in the Caribbean. This was within sight and achievable by utilising a trade policy instrument – the preferential trading agreement. The rationale behind negotiating such preferential trading agreements was noted succinctly by (Woolcock 2009: 6-7) who stated “For some years the EU has sought to use preferential trade agreements and thus access to the EU markets as a means of promoting regional integration in other regions….By using improved access to the EU market as an incentive the EU has sought to use region-to-region FTAs to promote regional integration elsewhere. The motivation here is to promote regional integration *per se* as a means of promoting economic welfare and political stability. This reflects the EU’s own positive experience with regional integration and represents the desire to ‘export’ the idea of regional integration to other regions.”

Between 1974 and 2002, CARICOM’s membership has expanded on several occasions (See Figure 2). Today, the regional grouping consists of twenty countries with fifteen being full members. The other five - Anguilla, the British Virgin Islands, Bermuda, the Cayman Islands and the Turks and Caicos Islands – are associate members. The integration process was initially driven by a political force, but it has been mainly influenced by an economic imperative. (Moreira and Mendoza 2007: 99) writing on the issues of economic integration and limited country size in the context of the Caribbean opined “Behind the political motivation lay an economic understanding that there is a minimal size below which countries or governments cannot be economically viable…..politicians appear to have held on to the underlying idea that size is an important constraint – not as an impediment to statehood, but as a limitation on economic development – and this perception appears to have been the main driver behind renewed attempts at regional integration, including CARIFTA in 1968, CARICOM in 1973 and the CSME in the later 1990s.”

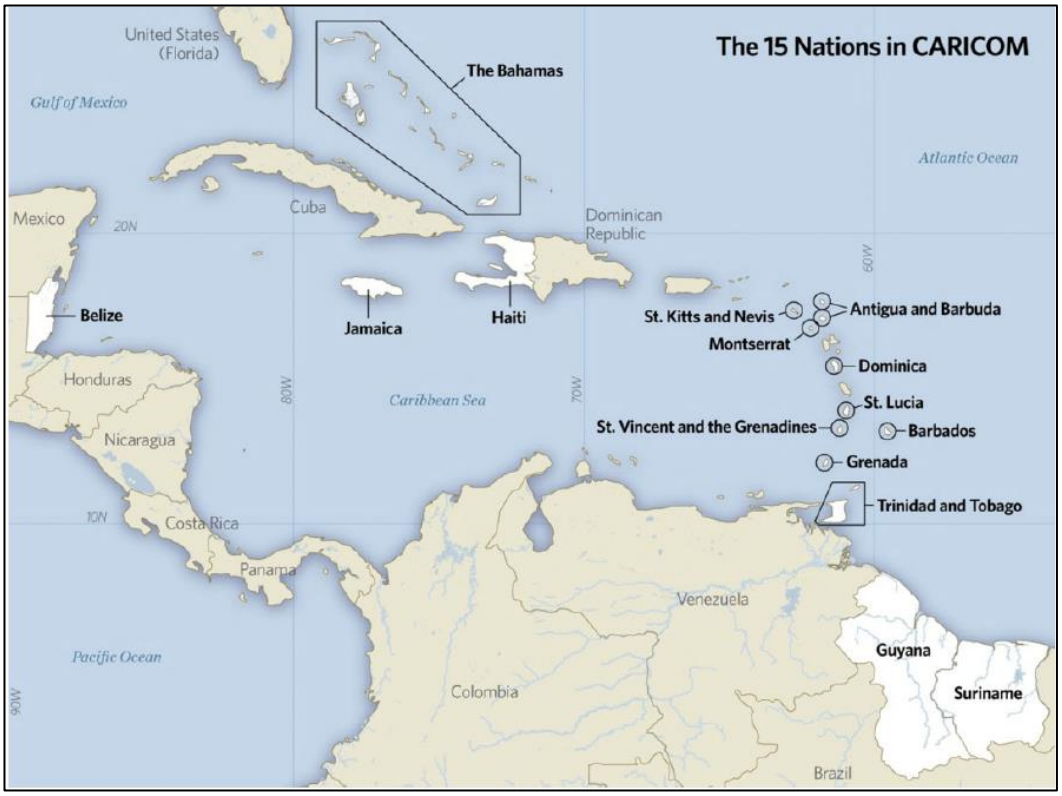
FIGURE 2. A TIMELINE OF CARICOM'S EXPANDED MEMBERSHIP



SOURCE: AUTHOR (2018)

Stretching from the Bahamas in the north to Suriname and Guyana in South America, to Belize in the west in Central America and Barbados in the eastern CARICOM comprises states that are considered developing countries. Except for Belize, Guyana and Suriname, all CARICOM members and associate members are island states (See Figure 3).

FIGURE 3. MAP DEPICTING CARICOM MEMBER STATES



SOURCE: WARNER AND ANATOL (2014)
REPRODUCED WITH THE COPYRIGHT HOLDER'S PERMISSION.

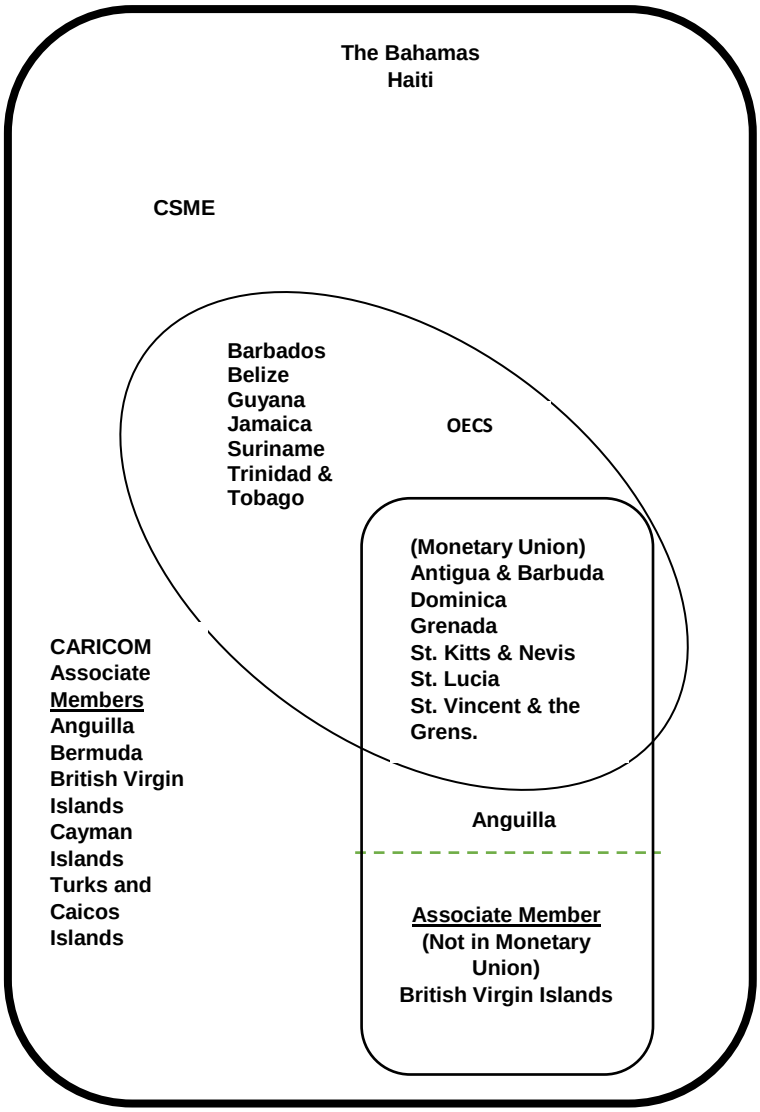
The Community is similar to the EU as it is also a multilingual trade bloc. However, in this context English is the dominant language whilst Haiti and Suriname are French and Dutch speaking respectively. The only Spanish speaking country in the region intimately related to CARICOM for the purposes of economic integration is the Dominican Republic and when combined they form the CARIFORUM group of states.

2.3 THE ORGANISATION OF EASTERN CARIBBEAN STATES.

Eight years after the formation of CARICOM, the OECS was founded on Thursday, June 18th, 1981 when the Treaty of Basseterre was signed in St. Kitts by Prime Ministers Mary Eugenia Charles, Maurice Bishop and Winston Cenac of Dominica, Grenada and St. Lucia respectively. Lester Bird – (Deputy Premier), Franklyn Margetson – (Minister of Education), Dr. Kennedy Simmons – (Premier)

and Hudson Tannis – (Deputy Prime Minister) signed on behalf of Antigua, Montserrat, St. Kitts and Nevis and St. Vincent and the Grenadines. All of the founding members, are independent nations except Montserrat which is still a colony of the United Kingdom. It is a sub-regional grouping of CARICOM and Figure 4 illustrates the complexed nature of regionalism within the Caribbean regarding CARICOM, its Associate members and the OECS.

FIGURE 4. THE INTERRELATIONSHIP OF THE OECS TO CARICOM

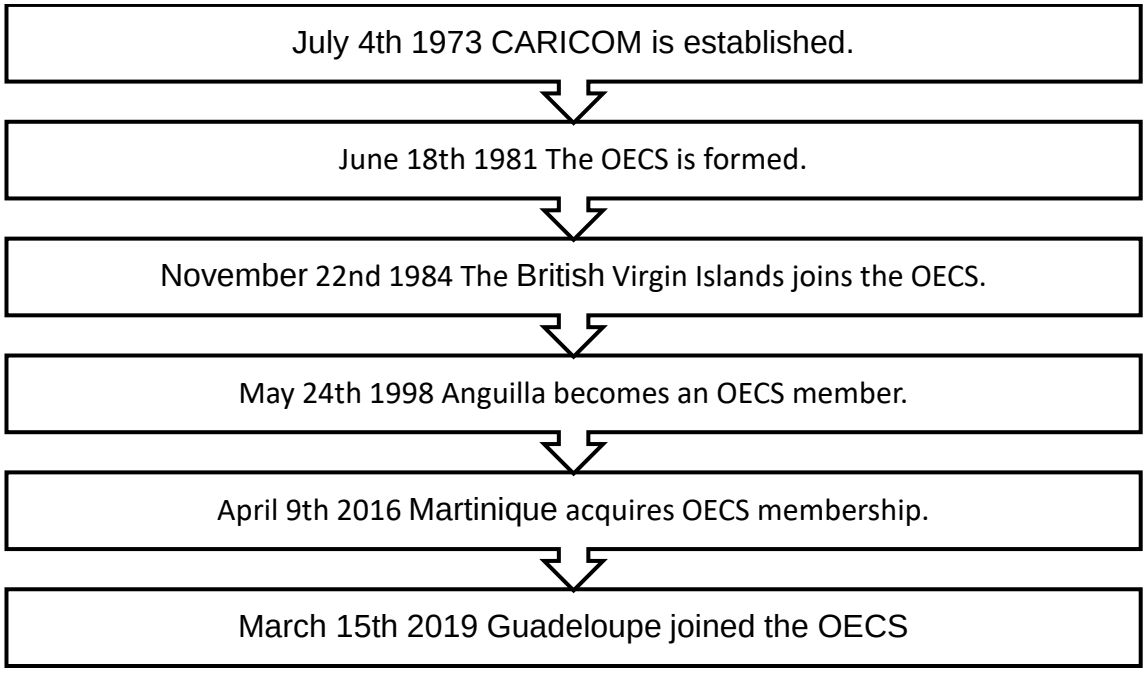


SOURCE: JESSEN AND VIGNOLES (2005)

https://publications.iadb.org/en/publication/caricom-report-no-2-2005

Since its formation, the Organisation's membership expanded on four separate occasions when the British Virgin Islands, Anguilla, Martinique and Guadeloupe joined the sub-regional grouping. (See Figure 5).

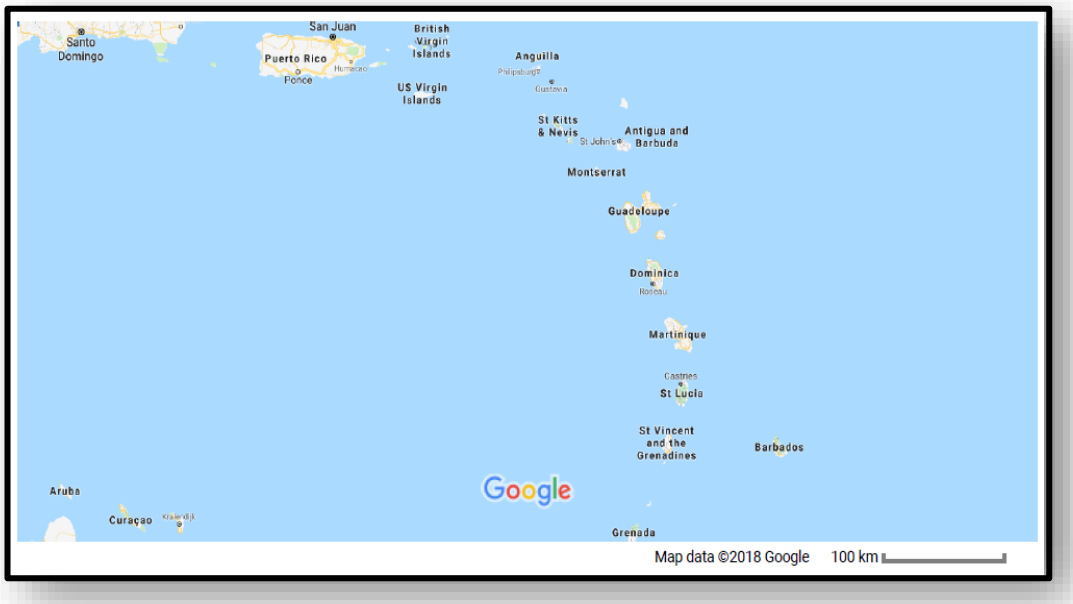
FIGURE 5. A TIMELINE DEPICTION OF OECS EXPANDED MEMBERSHIP.



SOURCE: AUTHOR (2018)

The three countries which joined since the formation of the OECS are Associate Members and treated as full members for many of the Organisation's activities. Anguilla and the British Virgin Islands are still colonies of the United Kingdom whilst Martinique is an overseas department and region of France. Together, these ten island nations form a near-continuous archipelago across the Eastern edge of the Caribbean Sea as depicted by in Figure 6 below.

FIGURE 6. THE GEOGRAPHIC LOCATION OF THE ORGANSATION OF EASTERN CARIBBEAN STATES MEMBERS.



SOURCE: GOOGLE AND MAP DATA © (2018)
REPRODUCED WITH PERMISSION FROM THE COPYRIGHT HOLDER

The OECS EPA signatories are Small Island Developing States (SIDS) that have high human development levels according to the United Nations as data in table 1 illustrates. They are quite similar to other countries of the Caribbean. If one analyses the 2011 data regarding Gross National Income per capita for the OECS EPA signatories in light of the World Bank's 2018 measurements it is clear that of these countries Dominica, Grenada, St. Lucia and St. Vincent have gross national incomes per capita between USD $3,956 and USD $12,235 and would be classified as upper middle-income countries by the World Bank. The other two, Antigua and St. Kitts and Nevis have GNI per capita in excess of USD $ 12 236 and would be classified as high-income economies. The economies of these countries were once agriculturally based. Antigua and St. Kitts and Nevis specialised in sugar cane production whilst Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines produced bananas. However, declining terms of trade, reduced output and a series of World Trade Organisation rulings

illegitimatizing trade preferences granted by Europe under successive Lomé trade agreements led to the demise of the sub-regional agricultural sector. As agricultural production declined from the early 1990's, the export of tourism services grew substantially as (Anderson et al 2003:132-133) noted regarding the experience of the banana producing countries in the Eastern Caribbean.

Additionally, the data in Appendix 2 indicates that agriculture is an important economic sector in Dominica and also in Grenada and St. Vincent but to a lesser extent. However, it is insignificant within the other islands. Regarding the industrial sector it is mainly characterised by the manufacture of beverages, electronic components, food processing and textiles. Also, among these microstates only Dominica has a soap manufacturing industry as was illustrated by (Gasiorek and Haynes-Prempeh 2006:10). The manufacturing sector is quite important to each of the OECS EPA signatories as they do not have any mineral resources. Thus, their economies are not characterised by mineral resource extraction industries which exist in Guyana, Jamaica and Trinidad where gold, bauxite and oil are mined respectively.

Furthermore, even though the data regarding land use and sectoral contribution to GDP are derived from different sources it is clear that there is a strong correlation between land use for agricultural purposes and the agriculture sector's contribution to GDP. In Dominica where 34.7% of the land is used for agricultural purposes the agricultural sector is responsible for 16.7% of GDP activity which is the largest among the OECS EPA signatories. Similarly, in Grenada and St. Vincent where 32.3% and 25.6% of the land is used for agriculture the sector accounted for 6.5% and 7.7% contribution to GDP respectively. At the opposite end of the spectrum where land use for agricultural purposes was lowest – 17.4% and 20.5% in St. Lucia and Antigua respectively-, the sector accounted for 2.8% and 2.2% of economic activity in those territories. This may be the reason why these two islands are more reliant on tourism than the other four OECS EPA signatories.

In terms of agricultural exports (Gasiorek and Haynes-Prempeh 2006:11) observed Antigua and Barbuda specialises in cotton, fruit and vegetables, Dominica, Grenada, St. Lucia and St. Vincent are all exporters of bananas. At the

time of writing of that document St. Kitts was still producing sugar but since then it has ceased production of that commodity due to the loss of preferential access to the EU market and declining terms of trade.

In relation to the services sector it is extremely important to these microstates which are the subject of this study. It was illustrated by (Gasiorek and Haynes-Prempeh 2006: 11) that tourism is important to the OECS EPA signatories and so too are financial services to Grenada and St. Kitts and Nevis. Finally, the socio-economic statistics indicate that these sub-regional countries are endowed with limited land sizes and small populations. Therefore, the small quantities of these factors of production will affect their productive capabilities.

Also, the OECS regional grouping is highly dependent on trade imports from its external partners according to the data in Table 1

TABLE 1. PERCENTAGE SHARE OF TOTAL OECS IMPORTS.

	INTRA GROUP TRADE	REST OF THE REGION TRADE	REST OF THE WORLD TRADE
1995	3.06%	94.79	96.94
2000	1.98%	96.47	98.02
2005	1.79%	96.87	98.21
2010	1.32%	97.90	98.68
2015	2.10	96.98	97.90

SOURCE UNCTAD STATS (2018)

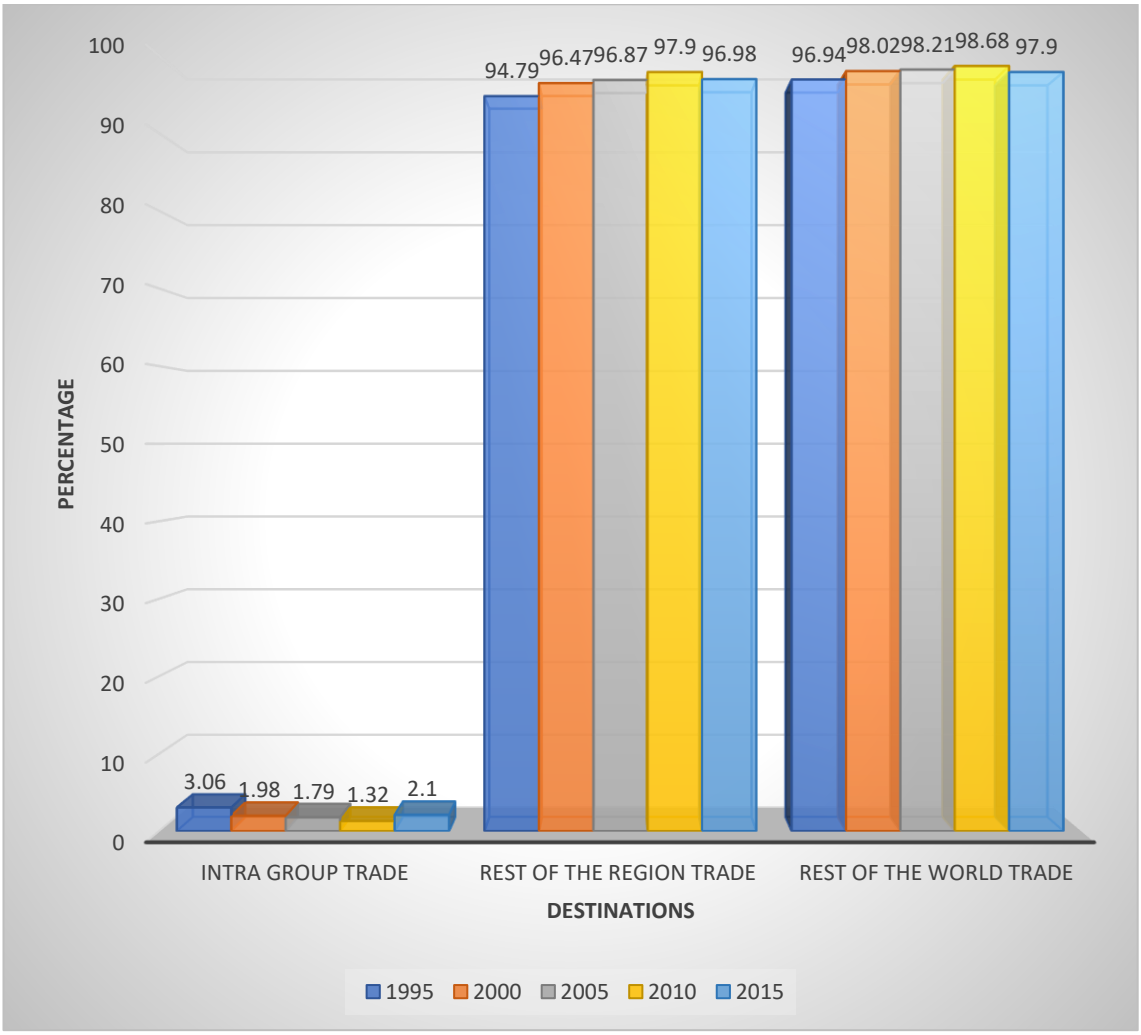
Several pieces of information are clear from Table 3. First, intra-regional trade decreased during the 5 year periods 1995-2010 from 3.06% to 1.98% of total trade. Second, the rest of the world trade and rest of the region trade both

increased from 96.94% to 98.68% and from 94.79% to 97.9% respectively. Third, the majority of the rest of the world trade (ROWT) is conducted with the rest of the region. UNCTAD has defined rest of the region trade (RORT) as the trade of the geographical region (TOGR) the group belongs to minus the intra trade of the group (ITOG). Using the data provided we can calculate the percentage of trade which goes to the geographical region (TOGR) the group belongs to

$$RORT = TGOR - ITOG$$
$$94.79 = TGOR - 3.06$$
$$94.79 + 3.06 = TGOR$$
$$97.85 = TGOR$$

In this case the OECS regional trading bloc is situated in the geographic region of the Americas. Therefore, it can be argued that the majority of the OECS trade is conducted with countries in the Americas. These events may have been influenced by fact that CARICOM signed several regional trade agreements with several Caribbean and Latin American countries that are applicable to the OECS which are explored in further detail later in the chapter. To test whether signing these regional trade agreements may have had a significant impact on rest of the region trade flows with trading partners in the Americas one would have to execute an econometric study. Such a study could feature a gravity model if trade data was available at country level. Alternatively, such trade may have been influenced by distance. Fourth, intra-regional trade increased from 1.32% in 2010 to 2.1% in 2015 whilst rest of the region trade and rest of the world trade declined from 97.9% to 96.98% and 98.68% to 97.9% respectively. This may have been attributed to the Global Financial Crisis (GFC) which may have affected inflows of foreign direct investment from developed countries and OECS countries may also have reduced imports. Figure 7 is a bar chart illustration of the percentage share of total imports of the OECS quinquennially since 1995.

FIGURE 7. PERCENTAGE SHARE OF TOTAL OECS IMPORTS.

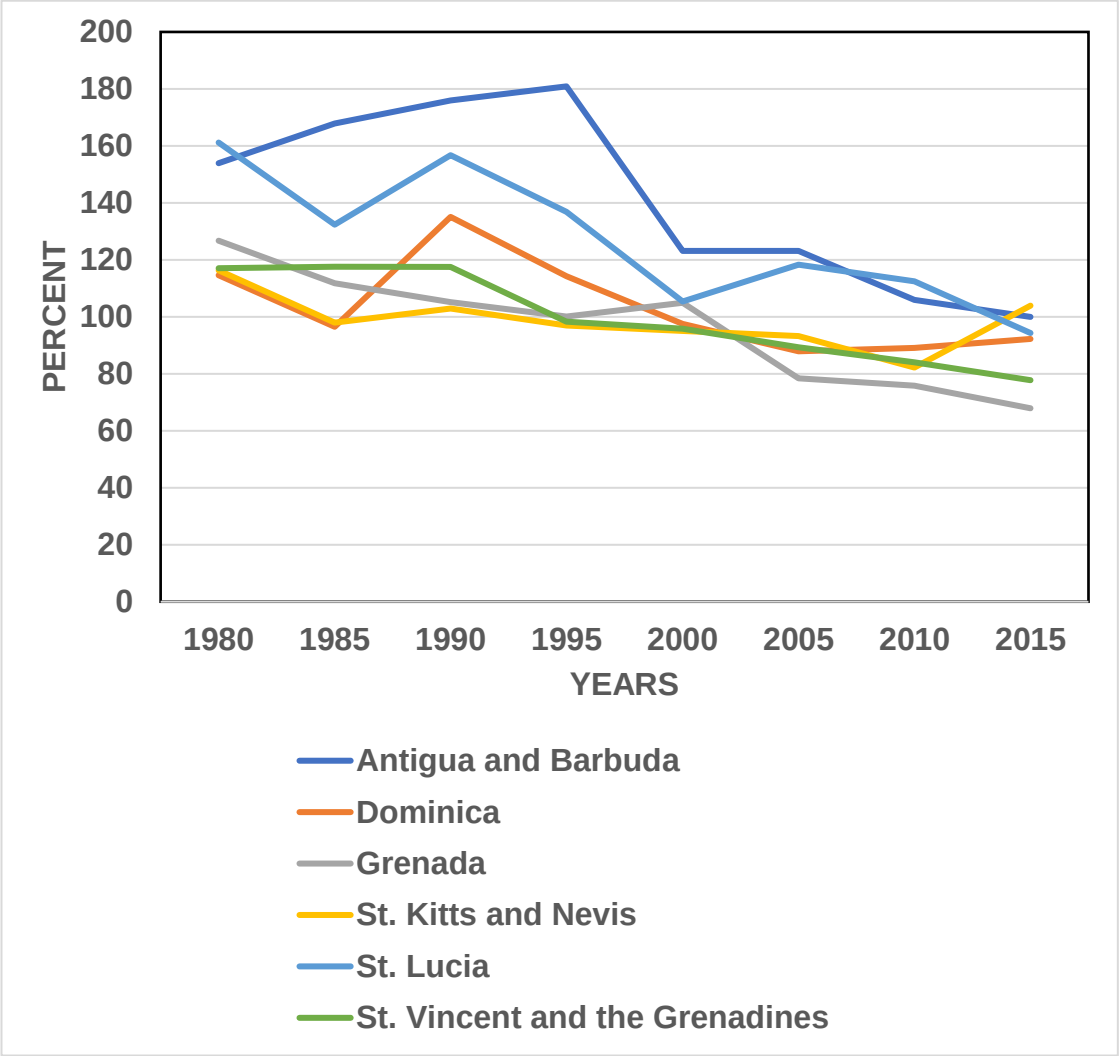


SOURCE: UNCTAD STATS (2017)

At the country level it is also very clear that the each of the OECS EPA signatories is highly trade dependent as they all have high levels of trade openness as Figure 8 indicates. Antigua's trade openness level increased steadily from 153% in 1980 to 180% in 1995. Afterwards, it plummeted to 123% in 2000 and remained at that level in 2005 before decreasing again to 105% in 2010 and 99% in 2015. Dominica on the other hand experienced fluctuations in its level of trade openness between 1980 and 1990. However, from 1990 to 2005 there were constant decreases in Dominica's level of trade openness which moved from 135% to 87.9%. Subsequently, it increased to 89% in 2010 and again to 92% in 2015. Regarding Grenada, it's level of trade openness decreased constantly

during the 15 year period 1980 to 1995 from 126% in 1980 to 111% in 1985 to 105% in 1990 and then to 100% in 1995. It then increased to 104% in 2000 and then declined dramatically to 78% in 2005, marginally by 3 percentage points to 75% in 2010 and 67% in 2015. St. Kitts and Nevis' level of trade openness has been characterised by a series of fluctuations between 1980 and 1990. However, since then it has declined from 102% to 82% in 2010 and by 2015 it had rebounded to 103%. St. Lucia's trade openness levels were also characterised by fluctuations but throughout the entire 25 years. It started off at 161% in 1980 and declined to 132% by 1985 before increasing to 156% five years later. By 1995 trade openness levels had decreased to 136% and again it decreased to 105% by 2000. Subsequently, it increased to 118% in 2005 before decreasing to 112% in 2010 and again to 94% in 2015. Of the six countries which are the subject of this study, only St. Vincent and the Grenadines trade openness remained constant at 117% from 1980 to 1990 before consistently declining in each five year period to 77% in 2015.

FIGURE 8. TRADE OPENNESS LEVELS OF OECS EPA SIGNATORIES 1980-2015.



SOURCE: WORLDBANK DEVELOPMENT INDICATORS (2018)

It is clear then how the combination of limited land sizes, small populations and highly trade dependent economies could have strongly influenced the decision of the founding members to establish this trading bloc. Bearing these factors in mind it is imperative to ascertain what caused the development of this trading bloc. According to (Riviere 1981), the OECS was not established as a threat to CARICOM but rather as a mechanism to deepen the integration process primarily in the immediate Eastern Caribbean region and secondarily across the Commonwealth Caribbean. (Lewis 1988:163) concurred with the first part of (Riverie's 1981) belief opining "the Organisation of Eastern Caribbean States was

then established in June 1981 as a mechanism for enhancing economic, political and functional cooperation among the countries of the Leeward and Windward Islands of the Caribbean….." These sentiments are in keeping with Article 3 (1) of the Treaty of Basseterre which provides that "The major purposes of the Organisation shall be

(a) To promote co-operation among the Member States and at the regional and international levels having due regard to the Treaty establishing the Caribbean Community and the Charter of the United Nations;
(b) To promote unity and solidarity among the Member States and to defend their sovereignty, territorial integrity and independence;
(c) To assist the Member States in the realisation of their obligations and responsibilities to the international community with due regard to the role of international law as a standard of conduct in their relationship;
(d) To seek to achieve the fullest possible harmonisation of foreign policy among the Member States; to seek to adopt, as far as possible, common positions on international issues and to establish and maintain wherever possible, arrangements for joint overseas representation and/or common services;
(e) To promote economic integration among the Member States through the provisions of the Agreement Establishing the East Caribbean Common Market; and
(f) To pursue the said purposes through its respective institutions by discussion of questions of common concern and by agreement and common action."

Sub-section two of Article 3 is concerned with the aspirations of the Member States to coordinate, harmonise and pursue joint policies in civil aviation, defence and security, economics, education, finance and banking, foreign affairs, law, maritime, science and tourism issue. This has resulted in the establishment of several shared institutions such as the Eastern Caribbean Supreme Court, the Eastern Caribbean Central Bank, the Eastern Caribbean Civil Aviation Authority and the Eastern Caribbean Telecommunications Authority. The overall administration of the sub-regional grouping.is undertaken by the OECS

Secretariat which is based in Castries, St. Lucia. Apart from the above - mentioned institutions the Secretariat is characterised by other units which play critical roles concerning the development of policy concerning trade and tourism in the OECS EPA signatories

2.3.1 THE COMPETIIVE BUSINESS UNIT

Formerly known as the Export Development Unit, the Competitive Business Unit (CBU) does not focus solely on export growth performance regarding manufactured products as did its predecessor. Rather the CBU promotes the competitiveness of the regional private sector across traditional and emerging sectors capable of earning substantial revenues. As is stated on the OECS website, it is the premier institution of the OECS member states for the development, promotion and expansion of exports undertaken using technical and financial support for targeted sectors. In the past the CBU has supported Small and Medium Sized Enterprises in agribusiness, manufacturing, creative and cultural services.

2.3.2 THE TOURISM UNIT

According to the OECS website the Tourism Unit of the OECS Secretariat is charged with executing a coordinated approach to tourism development across the sub-region through the provision of technical advice to member states. In support of this objective the Unit has developed a Common Tourism Policy that indicates member states should collaborate in the areas of investment, product development, research and marketing among other to enhance their competitiveness. Such collaborative efforts have borne fruit already in the joint promotion of the OECS as a single sailing destination at boat shows in source markets in the United States, Canada and Germany given the importance of yachting tourism to the sub-region.

The Unit has also established programmes concerning the promotion of easier intra-regional travel, community-based tourism, human resource development

and the enhancing of intersectoral linkages between tourism and agriculture and sports according to its webpage.

2.3.3 THE TRADE POLICY UNIT

In 2003 the OECS established the Trade Policy Unit given some concerns regarding how their strategic interests were being managed in CARICOM as (Ishmael 2006) noted. This Unit is set within the Economic Affairs Division of the Organisation and its purpose is to assist member states in the formulation and implementation of trade policies and negotiate trade rules. This has been recognised by (Ishmael 2006: 34) who wrote “Technical work related to the different theatres is undertaken by that unit, in conjunction with other partners….” The theatres which (Ishmael 2006) speaks of are regional concerning the CSME, bilateral concerning trade agreements signed by CARICOM which apply to the OECS and multilateral at the international level.

2.4 TRADE AGREEMENTS PERTAINING TO EUROPEAN – OECS TRADE

2.4.1 THE LOMÉ TRADE AGREEMENTS

Prior to the United Kingdom joining the EEC the latter’s trading relationship with its remaining colonies and some newly independent African countries was governed by the Yaoundé (1963-1969) and Yaoundé II (1969-1975) trade agreements. This occurred because of the contents of the 1957 Treaty of Rome. (Whiteman 2017: 34) observed “In particular, part IV of the treaty envisaged an association of the overseas territories of Belgium, France, the Netherlands and Italy…..” However, after the United Kingdom joined the EEC, the regulatory framework informing Europe’s trading relationship with Africa was transformed significantly. It would now include the United Kingdom’s remaining colonies and some former colonies in the Caribbean and the Pacific. This was facilitated by a number of trade agreements called the Lomé Trade Agreements so named after the Togolese capital where it was first signed in 1975.

Lomé I (1975) was characterised by non-reciprocal preferences for most ACP exports to the EEC, equality between partners, respect for sovereignty, mutual interests and interdependence, the right of each state to determine its own policies and security of relations based on the achievements of the cooperation system. It introduced STABEX system to compensate ACP countries for shortfalls in export earnings due to fluctuation in prices or supply of commodities. Lomé II (1980) introduced the SYSMIN system to help the mining industry in ACP countries which were dependent on mining. Lomé III (1985) shifts emphasis from the promotion of industrial development to self-reliant development on the basis of self-sufficiency and food security. Lomé IV (1990) covered a 10 year span and included a financial protocol split in two five year periods. A Mid Term Review was undertaken in 1995 where emphasis was placed on human rights, democracy and good governance; strengthening of the position of women; environmental protection; decentralized cooperation; diversification of ACP economies; the private sector promotion and increasing regional cooperation. In particular, during the midpoint of Lomé IV the world of international trade was changed forever. A new entity called the World Trade Organisation (WTO) was established bringing with it sweeping changes as to how global international trade would be conducted from thenceforth. One such change was that preferential trading agreements like the Lomé Agreements had now become incompatible with Article 24 of the General Agreement on Tariffs and Trade (GATT). The reason being the GATT rules had been incorporated within the Marrakesh Agreement which established the WTO. This led the European Union to ask the WTO for a waiver of the application of its new trading regime. This was granted in November 2001 and it was set to expire on December 31st 2007.

Even though the ACP countries were given duty free access to the European market under the Lomé Agreements it could not be said that the programme was a success. Throughout the programme's duration ACP countries saw their volume and value of exports to the EU market decrease. This point was recognised by (Karl 2002: 21) who wrote "The overall share of the ACP countries in total EU imports has fallen – from 6.7 per cent in 1976 to 2.8 per cent in 1999….Furthermore a significant part of ACP exports to the EU, approximately 60 per cent consists of only nine products…" (Gerrick 2004:135) expressed

similar views but acknowledged the role of ACP competitors by stating “Despite the preferential access to EU markets, ACP export performance had deteriorated over the last two decades and its diversification away from traditional products remained very limited primarily because of competition from Latin American banana exporters.”

2.4.2 THE COTONOU AGREEMENT

As the end of the Lomé Agreements was fast drawing near, in December 1999 the EU and ACP states commenced negotiations on a new trading regime which would inform international trade relations between both groupings of states. These deliberations were concluded on June 23rd 2000 in the city of Cotonou, Benin resulting in the Cotonou Agreement which would be applicable until December 31st 2007. It replaced the aforementioned Lomé Agreements which primarily focused on providing trade preferences and monetary support to the ACP countries in exchange for their primary products. This was necessary for several reasons. As (Gerrick 2004) pointed out the Lomé Agreements were complicated in structure and very complex which inhibited their successful implementation. More importantly, the United States complained to the WTO that the system of preferential access to the EU market which was accorded to ACP countries violated the Most Favoured Nation clause of the GATT. Consequently, the EU was sanctioned by the WTO which ultimately led to the development of the Cotonou Agreement. These turn of events, directly influenced the character of the Cotonou Agreement and its focus lay on poverty eradication, the promotion of sustainable development and the gradual integration of ACP countries into the world economy. The intentions of the EU policymakers on the issue of development and regarding the use of preferential trade agreements was recognised by (Woolcock 2009: 5) who opined “the main motivation of the EU has been development rather than access to the ACP markets.”

The Cotonou Agreement also played a pivotal role in the economic integration process within the Caribbean. Permeating this trade Agreement several references are made to the concept of regional integration. Starting with Article 1 there it is specifically stated “Regional and sub-regional integration processes

which foster the integration of the ACP countries into the world economy in terms of trade and private investment shall be encouraged and supported." Thus, it can be said this Article is applicable to the OECS which is a sub-regional integration layer of the CARIFORUM Grouping. Equally important, by being integrated into the world economy OECS had to prepare itself for the liberalization of trade in tourism services. A further analysis of the Cotonou Agreement illustrates that Articles 2, 17 (3), 29, 30, 35 (2), 36 and 37, mentioned the concept of regional integration in relation to regional institutions, agriculture and trade among other subjects. Hence, it is clear to see how this Agreement could have directly influenced the economic integration process within the Caribbean since it sought to stimulate cooperation in various aspects of commercial activity regionally.

This trade agreement also used some of the features of the Lomé Agreements by recognising the equality of partners, respect for human rights and the promotion of democracy. However, there were several novel features which formed the corpus of the Cotonou Agreement. First, (Gerrick 2004: 138-140) acknowledged that the Agreement would result in the phasing out of the ACPs non-reciprocal trade preferences. This was preparing the ACP countries for the impending Economic Partnership Agreements which would govern ACP – EU trade relations on a regional basis from 2008 onwards. Today, there are seven such regional groupings covering the ACP Group of states[12] at various stages in the negotiation process concerning future trading arrangements with the EU which will also be governed by Economic Partnership Agreements. Second it was observed that there was a dichotomy between the Lomé Agreements and the Cotonou Agreement concerning aid entitlements which had been previously awarded regardless of political and economic performances would now be determined on the level of a country's development and regional integration projects. Third, the Cotonou Agreement recognised there was a need for greater political dialogue in the ACP – EU Partnership. The dissemination of information

[12] The Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the Pacific Group of States and the Caribbean Forum (CARIFORUM) Group.

would be key to the success of the Agreement. Fourth, this trade Agreement that acknowledged the fact that Non-Governmental Organisations including the private sector, civil society and local and regional authorities had a role to play within the development of ACP countries. The majority of attention is given to the private sector as its role as “the engine for development” was distinctly recognized since it will have access to funding from the European Investment Bank (EIB) without the need for a state guarantee.

2.4.3 THE ECONOMIC PARTNERSHIP AGREEMENT

As was stated in Chapter 1, in October 2008 14 of the 15 CARIFORUM member states signed a full Economic Partnership Agreement with the EU which took effect provisionally on December 29, 2008. CARIFORUM is the first of the ACP regions to sign a full EPA with the EU which is based on non-preferential reciprocal trade.

The CARIFORUM EU Economic Partnership Agreement will inform international trade relations between the Caribbean and the European regions indefinitely and it is characterised by several features. First, it is a novel trade agreement because not only does it maintain the liberalized trade regime in goods which existed previously under the Lomé and the Cotonou Agreements, but it now extends to trade in services including tourism. Later, section 2.6 extensively explores how tourism services is treated within the EPA and illustrates which of the four sub sectors of tourism services have been liberalized for trade with the European Union. Second, the EPA is innovative as it covers the ‘Singapore issues’ of competition policy, investment, transparency and procurement which had never before been included in trade negotiations. It also covers new areas. According to (Girvan 2008c: 3) “The CARIFORUM EPA also provides for heightened Intellectual Property protection that goes beyond the relevant TRIPS Agreement in the WTO. Other subjects that are not within the scope of WTO Agreements such as current accounts payments, the environment, social aspects and cultural cooperation. Third, it is comprehensive in its treatment of services especially tourism services which will be explored in greater detail below. Fourth, it contains

an element of supranationality as it refers to the Joint CARIFORUM-EC Council which sits at the apex of its architecture. This body is empowered to take all decisions regarding the EPA and they are binding on all member states.

2.5 THE LIBERALIZATION OF TRADE IN SERVICES – MULTILATERALLY AND IN THE CARIBBEAN.

Having established that the EPA has liberalized trade in tourism services between the European Union and OECS groups of states first it is imperative to know what is meant by the term trade liberalization. This will help in understanding what it is primarily concerned with and how it is undertaken. According to (Ferrantino et al 1997: 1-2) trade liberalization is applicable to different elements of the international trading system. They opined "the term trade liberalization is defined broadly to include liberalization of goods and services, capital and technology." Meanwhile, trade liberalization was defined by (Lee 2005: 3) "as a move towards freer trade through the reduction of tariff and other barriers." The other barriers which (Lee 2005) is referring to are normally associated with trade in goods but they are also applicable to trade in services. This point was previously noted by (Hoekman and Primo Braga 1997:5) who wrote "Sometimes competition by foreign suppliers is prohibited. Alternatively, foreign suppliers may have to pay an "entry fee" or may be subjected to market share restrictions. In this respect there is little difference between trade in goods and trade in services. Indeed, the policy instruments that affect international trade in services are similar to those used in the goods context, and consist of measures such as subsidies, tariffs, taxes, quotas and technical standards."

In their research (Hoekman and Primo Braga 1997) were explicit about these other barriers and their implications which was very detailed. First, they identified quantitative restrictions and argued that they may be applied to providers of services rather than services per se. Leading examples are bilateral air services agreements and cargo shipping arrangements administered by the United Nations Conference on Trade and Development regulating air transport and cargo shipping respectively between signatory states. A second set of barriers to trade in services are price-based instruments such as tariffs. They are utilised to

affect trade that occurs through cross border movement of natural persons and may take the form of entry or exit taxes, discriminatory airline landing fees and port taxes. A third set of barriers are licensing or certification requirements that are imposed on foreign service providers. Examples of licensed professions include legal, accountancy and medical services. Foreign service providers may also be required to adhere to standards outlined by the governments of countries where they intend to establish operations. An example of how standards can affect the activities of foreign service providers abroad relates to environmental standards which have to be met within the transportation and tourism sectors. Finally, discriminatory access to distribution networks may also be used as barriers to foreign service providers accessing domestic markets. For example, a dominant telecoms service provider may discriminate against new entrants to a market by imposing restrictions on the ability of the incoming foreign service provider to attach specific types of equipment to the network. This forces them to build new infrastructure incurring increased start-up costs to their new operation which then makes them become uncompetitive. On the other hand, these barriers to trade in services can also have positive effects such that they protect infant industries or local service providers that have the potential to grow and become significant contributors to economic activity within the domestic market.

In the context of this study which focuses on the liberalization of trade in tourism services, the existence of the aforementioned barriers can negatively affect gains from inward tourism related investment. As was illustrated above standards can increase the cost of operating in the tourism sector. Also, tariffs can increase the cost of taking a holiday thereby having a negative effect on tourism demand. These costs may dissuade potential investors from entering the domestic market. Thus, there will be less competition in these foreign markets and prices will increase for consumers and there will be a welfare loss for them. As prices have risen so too do revenues for producers and there will be a welfare gain for them resulting in a producer surplus.

Next, it is worth considering how service liberalization developed by examining what transpired at the multilateral level before illustrating how the phenomenon

occurred intra-regionally concerning two forms of regionalism in the Caribbean and inter-regionally regarding the OECS and its trading partners.

In the late 1970s and early 1980s the American economy was characterised by deficits concerning trade in goods and a surplus in trade in services. This situation inspired the American government to push for the inclusion of trade in services provisions in the Tokyo Round trade negotiations. (Marchetti and Mavroidis 2011) noted the role played by domestic lobbyists such as the Coalition of Service Industries (CSI) which was primarily interested in negotiating an agreement concerning foreign direct investment. They further explain how the multinational financial services corporation American Express was instrumental in the development of trade in services at the multilateral level. The core of this company's business (international banking and financial services) was based on the transmission of data across national borders relying on computer and telecommunications networks, but. such activity was threatened with protection by governments globally. Consequently, the United States being cognizant of its strength in the services sector and the benefits which flowed from deregulation of some domestic services believed that the process could be repeated at the global level. Thus, in 1985 as the launch of the impending global trade negotiations drew near the then United States Trade Representative Clayton Yeutter tied that country's participation to the inclusion of trade in services on the agenda.

At the international level, a year later in 1986 trade in services was included on the global trade agenda following the Uruguay Round of trade negotiations. Almost a decade later in 1995 the World Trade Organisation was established to oversee global trade negotiations and the General Agreement on Trade in Services (GATS) entered into force as part of the process. As (Hoad 2003: 213) stated "it is the first legally binding multilateral trade agreement applicable principally to services and its objectives are the progressive elimination of obstacles of discriminatory barriers to service trade." It consists of 39 Articles and 8 annexes and its key legal elements include most favoured nation (Article 2), transparency (Article 3), market access (Article 16), national treatment (Article 17) and general exceptions (Article 14).

According to the website of the World Trade Organisation there are four modes of trading services.

Mode 1 – Cross Border Supply – services supplied from one country to another (e.g international telephone calls).

Mode 2 – Consumption Abroad: - consumers or firms making use of service in another country (e.g tourism)

Mode 3 – Commercial Presence – A foreign company setting up subsidiaries or branches to provide services in another country (e.g foreign banks setting up operations in a country).

Mode 4 Presence of natural persons – Individuals traveling from their own country to supply services in another (e.g fashion models or consultants)

GATS covers 11 service sectors which include business, communication, construction and related engineering, distribution, educational, environmental, financial, health, tourism and travel, recreational, cultural and sporting and transport services. The OECS EPA signatories have made commitments in various service sectors illustrated in table 2.

TABLE 2. GATS SECTOR COMMITMENTS OF THE OECS EPA SIGNATORIES.

	ATG	DMA	GRD	KNA	LCA	VCT
Business	X					
Communications	X	X	X	X		
Construction						
Distribution						
Education						
Environment						
Financial	X	X	X	X	X	X
Health					X	X
Tourism	X	X	X	X	X	X
Recreation	X	X	X	X	X	X
Transport	X			X	X	X

ATG – ANTIGUA AND BARBUDA, DMA – DOMINICA, GRD – GRENADA, KNA- ST. KITTS AND NEVIS, LCA – ST. LUCIA AND VCT- ST. VINCENT AND THE GRENADINES

SOURCE: ADAPTED FROM THE WORLD TRADE ORGANISATION (2018)

Tourism services are found in sub chapter 9 under Tourism and Travel Related Services in the WTO list MTN. GTS/W/120 based on the United Nations Central Product Classification (CPC). It consists of four sub sectors namely

A. Hotels and restaurants (including catering) (CPC 641-643),
B. Travel agencies and tour operator services (CPC 7471),
C. Tourist guide services (CPC 7472) and
D. Other services.

Out of the above sub-sectors, the OECS EPA signatories have made commitments to liberalize only the hotels and restaurants sub sector under GATS.

At the regional level three years later in 1989 following the 10th meeting of the Conference of Heads of Government in Grande Anse, Grenada a Declaration was issued with the aim of establishing a single market and economy as soon as possible as (Grenade 2004) noted.

Thus far, only the Caribbean Single Market (CSM) has become a reality after the Revised Treaty of Chaguaramas Establishing the Caribbean Community Including the CARICOM Single Market and Economy was signed in July 2001 and entered into force on January 1, 2006. On January 30th 2006 the Caribbean Single Market (CSM) was formally launched and established. The Revised Treaty applies to all CARICOM Member States, except the Bahamas and Montserrat allowing for the free movement of labour, capital and services and guarantees rights of establishment for nationals throughout CSM members. Regarding the CSM, (the Caribbean Trade and Investment Report 2005) states that its purpose is to deepen the economic integration process within CARICOM. Additionally, the CSM facilitates the functioning of an internal market characterised by the elimination of all intra-regional barriers concerning the movement of goods, services, certain categories of skilled labour and certain rights of establishment.

Regarding the single economy (Ito 2016) acknowledged that it was initially earmarked to be established by 2008 and this was subsequently deferred until the end of 2015. To date it remains an incomplete project characterised by implementation deficiencies. As (Ito 2016: 72-73) noted “some of these deficiencies include original mandates set for CARICOM and the CSME, a lack of natural, political and financial resources and a lack of human and technical capital due to brain-drain….Other obstacles which have caused delays in the implementation of the CSME, are a Caribbean perception of sovereignty to which a “high premium” is attached….”

At the sub-regional level within the OECS trade in services has also been liberalized. The establishing treaty of the OECS has been revised and is now known as the Revised Treaty of Basseterre (2011). According to the (OECS

Trade Policy Review WT/TPR/S/299 2014: 22) “The Revised Treaty of Basseterre (RTB) establishing the OECS Economic Union was signed on 18 June 2010 in St. Lucia, during the 51st Meeting of the Authority of Heads of Government of OECS Member States….The Revised Treaty of Basseterre has been ratified by all OECS-WTO Members; it entered into force on January 21st, 2011…” This has created a single financial and economic zone which facilitates the free movement of capital, labour, goods and services.

Article 27 of the Protocol of this Revised Treaty forbids protocol member states from imposing or maintaining restrictions on the provision of economic services by nationals of another Protocol Member State to persons in any other Protocol Member State. Sub section two is concerned with freedom of trade in services. It reads “No Protocol Member State may impose or maintain restrictions on the provision of economic services by nationals of another Protocol Member State to persons in any other Protocol Member State which exceed restrictions on the provision of those services which apply to limit the provision of those services by the nationals of the Protocol Member State imposing the restrictions.” Hence, the Revised Treaty has liberalized trade in services at the sub-regional level. It should be noted that the free movement of persons and services is not applicable to the Associate Member States.

Inter-regionally, trade in services has been liberalized by virtue of several trade agreements that have been signed between CARICOM and some of its trading partners the effects of which extend to the OECS. This is because CARICOM is responsible for international trade negotiations concerning that grouping. This has been noted by (Ishmael 2006:59) who wrote “..the OECS perspective on matters pertaining to their unique and special circumstances are then tabled at meetings of the wider CARICOM group (international negotiations for the region are handled at the level of CARICOM).”

Among these trade agreements are the following**:**

CARICOM – Venezuela (1992).

CARICOM – Colombia (1994).

CARICOM – Cuba (2000).

Agreement Establishing the Free Trade Area Between the Caribbean Community and The Dominican Republic (2001).

CARICOM – Costa Rica (2004).
EU-CARIFORUM Economic Partnership Agreement (2008).

The CARICOM – Venezuela (1992) and CARICOM–Colombia (1994) treaties give the issue of trade in services cursory treatment with just two short subsections to Articles 13 and 14 respectively. The wording of subsection one in both trade agreements is identical and it reads as follows

(1) "The Parties recognize the importance of trade in services for the development of their economies."

Sub section two in both agreements is mostly similar stating that "the parties further recognize that it will be opportune and necessary to develop co-operation in this sector…." Both agreements go on to acknowledge that the negotiation of the General Agreement on Tariffs and Trade was pending thus the parties will negotiate amendments or further elaboration/expansion of the respective agreements.

The CARICOM – Cuba (2000) treaty contains one article which relates to trade in services. Article 15 (1) (i) is concerned with trade in services and outlines that the exchange of information on the services sectors should commence without delay. Article 15 (1) (ii) speaks about beginning negotiations for the establishment of a regime for trade in services between the parties after completion of the implementation of the CARICOM Services regime. This would be realized by the full application of the provisions of Protocol 2 amending the Treaty of Chaguaramas or the relevant Chapter containing those provisions. As part of the process the parties should take into consideration their commitments in the General Agreements on Trade in Services. The third sub section of Article 15 (1) outlines several service sectors and sub sectors to which the treaty would apply. Included among them are tourism and travel, entertainment, financial, professional construction and engineering, computer, telecommunications and transport. Article 16 of the Cuba – CARICOM Agreement concerning tourism speaks of considering joint ventures in cruise shipping, providing technical assistance in the area of human resource development foreign language training,

hospitality training, tourism planning and development and hotel management training, undertaking cultural exchanges and preparing and promoting joint tourism products and programmes among other issues. It is also concerned with establishing Expert Groups on several sub-sectors of the tourism industry.

The Agreement establishing the free trade area between CARICOM and the Dominican Republic (2001) contains Article 2 which sets out the objectives of the Agreement with sub-section 2 (3) highlighting the progressive liberalization of trade in services as one such goal. Article 6 which focuses on trade in services states that the framework of principles and rules on trade in services is contained in Annex 2. However, in that attachment to the agreement there is no mention of tourism. This may be due to the fact that historically, the majority of tourism related foreign direct investment in the Caribbean comes from extra regional sources as opposed to regional sources.

The CARICOM – Costa Rica (2004) treaty covers services and investment in chapter 9. Article 9.01 is concerned with general provisions and it has three subsections. Article 9.02 focuses on services and sub-section one is akin to sub-section one within the trade agreements between CARICOM and Venezuela and CARICOM and Colombia. Additionally, article 9.02 (2) encourages authorities in both parties to the agreement to act expeditiously after the submission of an application for a license or certification by a national of the other party. Finally, article 9.02 (3)(a) is concerned with several issues relevant to the smooth operation of a service sector. Among them are the regulation of professional services in parties to the agreement and the development of mutually acceptable standards concerning licensing and certification of professional service providers. Article 9.02 (3)(b) provides for the examination of elements regarding standards referred to in sub-section (a)(ii). These elements include education, examinations, experience, conduct and ethics, professional development and re-certification, scope of practice, local knowledge and consumer protection. Sub-section (c) mandates authorities in party countries to present results of discussions pertaining to the development of mutually acceptable standards mentioned in subparagraph (a)(ii), whilst sub-section (d) speaks to the

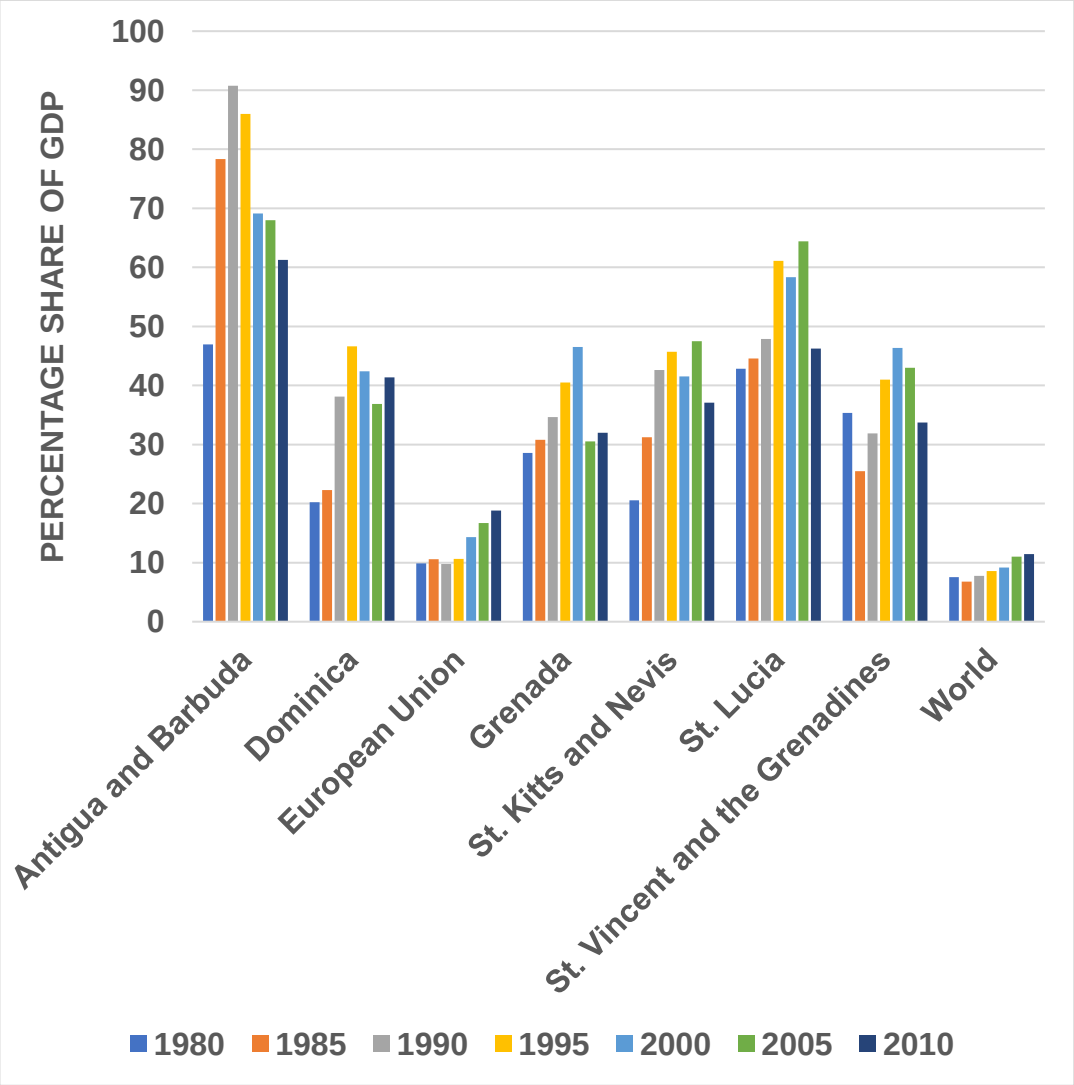
recognition of qualification and licensing requirements and sub-section (e) defines the term professional service.

The EPA (2008) is far more comprehensive in its treatment of the liberalization of trade in services when compared to how the subject is dealt with in the preceding trade agreements. This issue of services is to be found in Title II of the EPA entitled Investment, Trade in Services and E-Commerce. Chapters 2, 3 and 4 of this trade section of the trade agreement relate to Modes 3, 1 and 4 respectively concerning how services are supplied. Mode 1 is concerned with Cross Border Supply, Mode 3 relates to Commercial Presence and Mode 4 speaks to the presence of natural persons. The other mode, Mode 2 pertains to Consumption Abroad. This is not addressed in the EPA. Each of these chapters provides definitions of key terms before addressing issues concerning Market Access, National Treatment, Lists of Commitments and Most Favoured Nation Treatment.

Chapter 5 of Title II of the EPA outlines the Regulatory Framework for all the services sectors which have been liberalized by the trade agreement. Section 1 of Chapter 5 outlines the Regulatory Framework concerning provisions of general application. They deal with Mutual Recognition, Transparency and Procedures under Articles 85 to 87 respectively. Sections 2 through 6 relate to computer services, courier services, telecommunications services, financial services and international maritime transport services respectively. Section 7 relates to tourism services. Regarding services liberalization under the EPA it is asymmetric in nature. The EU has liberalized 94% of its services sub sectors and the OECS which constitutes the Lesser Developed Countries (LDCs) of CARICOM within CARIFORUM has liberalized 65% of its service sector.

One may be tempted to ask why the EPA is so thorough concerning the liberalization of trade in services. The answer is directly linked to the economic importance of the services' sector to the OECS EPA signatories. Statistical data presented in Figure 9 illustrates that the sector is of substantial economic importance to the OECS EPA signatories when compared to the EU and the world.

FIGURE 9. TRADE IN SERVICES (% OF GDP) – ANTIGUA & BARBUDA, DOMINICA, GRENADA, ST. KITTS & NEVIS, ST. LUCIA, ST. VINCENT & THE GRENADINES, THE EUROPEAN UNION AND THE WORLD 1980 – 2010.



SOURCE – WORLD BANK DEVELOPMENT INDICATORS (2017)

At the global level the data indicates that trade in services as a percentage of GDP is quite small. During the period 1980-2010 it consistently remained under 10%. Since 2000 the percentage share of trade in services has increased from 9.19% to 10.98 in 2005 to 11.46% in 2010.

In the case of the EU, trade in services as a percentage of EU GDP during the period 1980 to 2000 was characterised by fluctuations. In 1980, trade in services was responsible for 9.86% of economic activity within the trading bloc. However, five years later it had marginally increased to 10.59% but five years later it accounted for 9.77%, a decrease of 0.82%. By 1995 there had been a marginal increase of 0.88% resulting in trade in services contributing to 10.65% of the EU GDP. At the country level the contribution of trade in services to GDP varied during different periods. For instance, between 1980 and 1990 the sector's contribution to Antigua's GDP almost doubled growing from 46% to 90%. However, between 1990 and 2010 there were constant decreases in the sector's contribution to GDP.

In the case of Dominica, the contribution of trade in services more than doubled between 1980 and 1995 moving from 20.2% to 46.6%. Subsequently, it decreased to 42.4% in 2000 and again to 36.8% in 2005 before increasing to 41.3% in 2010. In relation to Grenada, the sector's contribution to economic activity in that island grew from 28.5% to 46.5% between 1980 and 2000. However, five years later the sectoral contribution to GDP had decreased to 30.5% before increasing marginally to 31.9% in 2010. Concerning St. Kitts and Nevis trade in services contribution to GDP in the twin island Federation more than doubled moving 20.5% in 1980 to 45.7% in 1995. In the years to follow the sectoral contribution to GDP fluctuated as it decreased to 41.5% in 2000 before rising to 47.5% in 2005. Afterwards, it would decrease by 10 percentage points to 37.1%

In the case of St. Lucia, that country witnessed constant increases in the contribution of trade in services to its GDP between 1980 and 1995 where it accounted for two thirds (61%) of the island's economic activity. Afterwards there was a decline of 3 percentage points to 58% and by 2005 it had rebounded to 64%. However, 2010 trade in services' contribution had decreased significantly to 46%. St. Vincent was the only country to experience a decline between 1980 and 1985 when the contribution of trade in services decreased from 35.3% to 25.4%. Following that there was continuous growth in the service sector

contribution to GDP until 2000 when it peaked at 46%. Thereafter it declined to 42% in 2005 and then again to 33% in 2010.

Regarding the OECS EPA signatories it is evident that trade in services makes a greater contribution to economic activity in these microstates than it does in the EU and at the global level. The sector accounted for no less than 20% of economic activity across these Caribbean states during the period 1980 to 2010. Equally important for consideration is the fact that the economies of Antigua and St. Lucia are most dependent on trade in services in this sub-regional grouping. This may be attributed to these countries being the biggest exporters of tourism services which accounts for the majority of service exports. This may be the reason why both Antigua and St. Lucia have the smallest percentage shares of agricultural land use as is shown in Table 1 as the land may be utilised for other purposes including tourism developments.

Furthermore, several important trends are detectable from the raw data in Table 3 below on which the above chart is based. In the post 1995 period there were decreases in the contribution of trade in services to GDP in all of the OECS EPA signatories except Grenada and St. Vincent. This may have been attributed to a hyperactive Atlantic hurricane season in 1995 when Hurricanes Luis and Marilyn affected the Leeward Islands and in 1998 when Hurricane Georges affected Antigua and St. Kitts. Research by (Granvorka and Strobl 2013) has indicated that adverse weather conditions does negatively impact tourist arrivals. This in turn will affect the level of tourism services these countries are able to export and ultimately the contribution of trade in services to their respective GDP's since tourism is the largest service export of these microstates. Also occurring during the 1995-2000 period, South East Asia experienced a financial crisis primarily characterised by currency devaluations from 1997 to 1998. Such decisions on the part of those particular Asian Governments would have made those countries cheaper and more affordable to American and European tourists. International tourist arrivals may have increased from those continents which could have negatively affected tourist arrivals to the Caribbean region.

TABLE 3. TRADE IN SERVICES (% OF GDP) OECS EPA SIGNATORIES 1980 – 2010.

	1980	1985	1990	1995	2000	2005	2010
ATG	46.93	78.32	90.75	85.98	69.12	67.97	61.25
DMA	20.2	22.31	38.1	46.6	42.4	36.8	41.3
EU	9.86	10.59	9.77	10.65	14.34	16.73	18.83
GRD	28.55	30.83	34.64	40.51	46.52	30.51	31.98
KNA	20.58	31.22	42.63	45.71	41.51	47.52	37.1
LCA	42.81	44.54	47.9	61.12	58.34	64.43	46.25
VCT	35.32	25.48	31.87	40.98	46.37	42.99	33.71
WORLD	7.54	6.8	7.74	8.54	9.19	10.98	11.46

ATG – ANTIGUA AND BARBUDA, DMA – DOMINICA, GRD- GRENADA, KNA – ST. KITTS AND NEVIS, LCA – ST. LUCIA AND VCT – ST. VINCENT AND THE GRENADINES.

SOURCE – WORLD BANK WORLD DEVELOPMENT INDICATORS (2017)

In the period 2000 to 2005 there were decreases in the contribution of trade in services to the GDP in Antigua, Dominica, Grenada and St. Vincent. During this period there were several issues which could have affected the contribution of trade in services to GDP in the aforementioned countries as they impacted the largest service export – tourism. First, there was a recession between March and November 2001 in the United Kingdom and the United States which are very important source markets for the Caribbean in terms of tourism. (Tsounta 2008) illustrated that tourism demand is significantly affected by the economic climate in developed countries. Consequently, this will impact the percentage share contribution of the tourism sector to GDP in any year. Second, there was the September 11th 2001 terror attacks in New York and Washington which resulted

in a decline in American tourist arrivals to the region This was confirmed by (Korstanje and Clayton 2012) who found that the Caribbean experienced a 13.5% decline in American visitors following the 9/11 terror attacks. Third, Grenada was hit by hurricanes Ivan and Emily in September 2004 and August 2005 respectively which caused substantial damage to the island's hotel stock. (Laframbosie et al 2014) acknowledged that hurricane Ivan negatively impacted tourist arrivals to the country and the performance of its tourism sector. Ultimately these natural disasters would negatively impact the overall contribution of trade in services to Grenada's GDP as tourism is the largest service export of the country.

In the subsequent five-year period 2005 to 2010 the most influential factor which negatively impacted tourist arrivals and thus the contribution of trade in services to GDP in Caribbean tourist destinations would have been the Global Financial Crisis of 2008**.** Research undertaken by (Mohan and Watson 2011: 9) stated "world tourist arrivals took a nose dive in the third quarter of 2008, continuing into 2009, following the international Financial Crisis (IFC). Tourism demand in all CARICOM countries was also negatively affected by the crisis…..European arrivals took the biggest fall followed by the US and Canada. The tourism-dependent CARICOM economies have been more painfully affected by the IFC. These economies are smaller and more vulnerable to external shocks. The smaller CARICOM territories are highly dependent on tourism. Tourist arrivals to the region will remain depressed as unemployment in the US, EU and Canada remains high."

Given the above data on trade in services it is easy to understand that liberalization in that sector is advantageous to OECS EPA signatory economies for several reasons. First, it offers countries the opportunity to engage in diversification of their exports. Second, it enhances the competitiveness of service providers in countries when faced with competition from foreign service providers. Third the implementation of such a policy can act as a magnetic force regarding foreign direct investment. Fourth, it gave service providers in these countries access to the EU market. Writing on the issue, (Arthur 2008: 40) conceded this point noting "the area in which, on the face of it, the greatest

benefits stand to accrue to the Caribbean is the liberalisation of services……the economic sphere the Caribbean has chosen to be its chief area of emphasis as it seeks to transform (services), the European Union has committed itself to providing the Caribbean with more extensive market access than it has committed to under the WTO or any of its bilateral agreements."

Of all the trade agreements examined above only the CARICOM – Cuba (2000) treaty and the CARIFORUM EU EPA (2008) contain provisions on tourism services. In the former, article 16 (1) concerning tourism speaks of considering joint ventures in cruise shipping, providing technical assistance regarding human resource development, foreign language training, hospitality training, tourism planning and development and hotel management training, undertaking cultural exchanges and preparing and promoting joint tourism products and programmes among other issues. Sub-section (2) empowers the Joint Commission to establish Expert Groups on tourism, travel related services and entertainment that are comprised of specialists from both parties to assist the Commission in the implementation of this article. Last, Article 16(3) states that the Experts Group would meet at least once annually. In the latter, section 7 of chapter 5 relates to tourism services and the manner of its treatment of tourism is the subject of the next section.

2.6 THE TREATMENT OF TOURISM IN THE CARIFORUM EU EPA

Within section 7 of chapter 5 of the EPA there are several provisions regarding tourism services which focus on wide ranging issues. Article 111 refers to the prevention of anti-competitive practices. It has been included in the EPA targeting European tour operators which conduct business in the Caribbean. The European tourism industry is characterised by a few vertically integrated tour operators like United Kingdom based Thomas Cook and Germany based Condor which have the same parent company the Thomas Cook Group.

In the past, European tour operators have been accused of anti-competitive practices including abuse of dominant position through imposing unfair prices, refusal to deal, exclusivity clauses and tied sales among others. These practices

are unleashed against Caribbean hoteliers by vertically integrated European tour operators that derive power from operating in an oligopolistic market structure within Europe. However, the extent of their vertical integration does not include the ownership of hotels in the Caribbean. Thus, they enter into contractual relations with regional hotels for the supply of hotel rooms to be used by European tourists. In some instances, these tour operators can be monopolists and monopsonists simultaneously as the sole supplier of European package holiday tourists to a Caribbean destination and the sole buyer of hotel rooms from domestic hoteliers respectively.

In the presence of such asymmetric power dynamics the above anticompetitive practices are employed. This was noted by (Souty 2002: 13) who observed "In the 1990s …. a new category of business conduct has attracted the attention of competition policy authorities and analysts: situations of dependency of a seller from its buyer (i.e. in the tourism industry situations where a small hotel owner is confronted with the market power of major operators selling all-inclusive packages and destinations when this hotel has to accept the pricing policies of the tour operators or be "black-listed")" Claims such as these have been made throughout the literature however there are no examples of cases that have been identified concerning the Caribbean.

The results of such tactics can force Caribbean hoteliers to suffer producer losses or they can be forced out of business. Also, these tactics can cause inward investment in the hotel sector to increase when foreigner investors (European tour operator companies) enter the market to compete with domestic hoteliers who stand firm in the face of anticompetitive practices or replace those who have exited the market. In circumstances where the new investor is replacing a domestic hotelier that exited the market two things may result. First, the country will now be home to a branded hotel which may be a part of the European tour operator company. Second, the consumer may experience losses as higher prices can result where there is little or no competition to the foreign investor.

Article 112 addresses supply side issues which provide for transfers of technology to commercial entities based in the Caribbean while Article 113 is

concerned with facilitating small and medium sized enterprises' participation in the tourism sector. Issues regarding human resource development as it relates to the tourism sector in the Caribbean have been articulated in the EPA as Article 114 envisages cooperation between parties in the mutual recognition of qualifications and licences or other regulations. The EPA also provides for the movement of natural persons (Mode 4) concerning tourism. Article 83 (1) notes that CARIFORUM and EC Signatory states reaffirm their commitments under GATS and facilitate the entry and temporary stay of contractual service suppliers and independent professionals.

Articles 115 and 116 speak to the issues of sustainable development and environmental standards and quality respectively as they play a critical role in terms of tourism development internationally. Article 117 is one of the most important articles of Section 7 which focuses on development cooperation. It demonstrates both Parties' intentions to cooperate regarding the advancement of the tourism sector in signatory CARIFORUM states. One area targeted for cooperation concerns the introduction of Tourism Satellite Accounts at the local and regional levels which is a standard statistical framework and tool for the economic measurement of tourism. The Article also addresses issues concerning environmental management, the development of internet marketing strategies for small and medium sized enterprises and language training for CARIFORUM tourism service providers. Finally, article 118 is concerned with the exchange of information and consultation. Domestic commercial operators in the tourism sector in the Caribbean are unable to fully exploit increased market access opportunities concerning Europe. This is due to the high cost of marketing in Europe and limited access to information. Article 118 therefore serves as a channel to overcome these challenges. It formalises the information sharing process between the parties to the EPA by acknowledging that the Trade and Development Committee will oversee consultations involving CARIFORUM and European industry officials.

Outside of chapter 5 section 7 there is article 83 (2) of chapter 4 allows the supply of services into EU member states by contractual service suppliers from CARIFORUM states. Sub-sections (27) and (28) facilitate the provision of travel

agent and tour operator services and tour guide services respectively in European Community member states by CARIFORUM nationals.

2.6.1 COMMITMENTS MADE BY THE OECS EPA SIGNATORIES REGARDING THE TOURISM SERVICE SECTOR.

Up to this point, several specific issues concerning tourism addressed by the EPA have been examined. What remains unclear is how the OECS EPA signatories intend to operationalise this trade agreement in terms of their commitments made to liberalise various sub-sectors of the industry. Annex IV F of the EPA contains the list of commitments in service sectors including tourism made by the CARIFORUM states which includes the OECS EPA signatories (See Appendix 3).

CARIFORUM adopted a positive list approach to scheduling services across all four modes of supply. Where countries choose to liberalize a sector (i.e remove limitations or restrictions to market access or national treatment) then the extent of that commitment is detailed. If no details of commitments are expressed for any specific sector, then it is not considered as being liberalized. Hence, the services schedule of commitments only outlines the instances where OECS and other CARIFORUM states have committed to liberalize. If a state is not listed in the schedule, it has not made a commitment to remove restrictions in the said sector. If the term ‘unbound’ appears in the market access or national treatment column of a schedule then a country wishes to remain free in a given sector and mode of supply to introduce or maintain measures inconsistent with market access or national treatment. If the word ‘none’ appears in the market access or national treatment schedule columns then this means that there are no limitations on market access or national treatment in a given sector and mode of supply. Put differently, there is full commitment and the sector is fully liberalized in terms of the specific mode of supply.

In the EPA the four sub sectors of the tourism sector are the same as those in the GATS namely; hotels and restaurants (including catering), travel agencies and tour operator services, tourist guide services and Other. This last sub sector

Other encompasses four sub divisions including hotel development, hotel management, marina services and spa services. The OECS EPA signatories have chosen to make commitments in the hotels and restaurants and Other sub-sectors. Since the OECS EPA signatories have now made commitments regarding the sub-sector Other the EPA is said to be GATS Plus as it goes beyond what the OECS had committed to liberalise under the GATS. However, there are no commitments in the schedule by OECS signatories relating to tour operator or tourist guide services which reflects that those areas have been reserved for OECS investors. Below is an explanation of the commitments that have been made by OECS which have liberalized trade in tourism services between those microstates and the European Union.

2.6.1.1 HOTELS AND RESTAURANTS

Concerning the hotels and restaurants sub sector, the OECS EPA signatories have declined to provide market access to the EU service providers regarding Mode 1 (Cross Border Supply) for the provision of hotel and restaurant services. This is because restrictions remain unbound. Regarding Mode 2 (Consumption Abroad) there are no limitations on market access. Mode 3, (Commercial Presence) is where there is the greatest variation among the OECS signatories vis-à-vis limitations. Antigua, Dominica and St. Lucia do not have any limitations concerning market access. In Grenada there is a limitation on the size of the operation of ethnic and specialty restaurants. St. Kitts and Nevis limits commercial presence to developments in excess of 75 rooms. Ownership of non-ethnic restaurants is reserved for nationals. St Vincent has no limitations except that foreign service providers must be incorporated or registered in that country. Additionally, foreign investors are required to obtain an alien land holding licence to transfer land, mortgage, shares or debentures in St. Vincent. In relation to Mode 4 (Presence of Natural Persons) the OECS EPA signatories have not provided market access to EU service providers under the hotels and restaurants sub sector as they all remain unbound except as indicated in the horizontal commitments.

Regarding limitations on national treatment specific to Mode 1 all of the OECS EPA signatories remain unbound. This means they have not provided any commitments to extend national treatment to the EU businesses/nationals wishing to operate hotel and restaurant services in OECS territories. In relation to Mode 2 there are no limitations or restrictions on national treatment. Concerning Mode 3 there are no limitations on national treatment imposed by the governments of Antigua, Grenada, St. Kitts and Nevis and St. Lucia. However, Dominica places limitations on national treatment such that fiscal incentives under the Hotel Aid Act and the Fiscal Incentives Act may be limited to hotels of ten rooms or more. St Vincent has declined to provide national treatment to European hotel and restaurant service providers as restrictions remain unbound. In relation to Mode 4 the OECS EPA signatories have not committed to provide national treatment to EU service providers under the hotels and restaurants sub sector as they all remain unbound.

With respect to letting services of furnished accommodation only St. Lucia has made commitments in this sub division of hotels and restaurants with there being no restrictions on market access and national treatment regarding modes 1, 2 and 3. However, market access and national treatment remains unbound concerning mode 4 regarding this sub-division.

2.6.1.2 HOTEL DEVELOPMENT

Under the hotel development sub division Grenada and Dominica are the only OECS EPA signatories that have given commitments. Both countries have declined to provide market access to the EU service providers regarding Mode 1 which remains unbound. Also, they both do not have any limitations on market access concerning Mode 2. Regarding Mode 3 (Commercial Presence) Dominica and Grenada have placed limitations on market access to EU service providers concerning hotel development. European hotel developers can only engage in this type of economic activity regarding properties which have more than 50 and 100 rooms in Dominica and Grenada respectively. Hotel developments in Dominica and Grenada of less than 50 and 100 rooms respectively may be subjected to an economic needs test. Additionally, in Grenada the main criteria

are location and number of national operators. In both countries, there are no limitations regarding national treatment. Finally, Dominica and Grenada have limitations on market access concerning mode 4. They are limited to managerial and specialist skills level and are subject to work permit and immigration regulations. Regarding limitations on national treatment there are none for modes 1, 2, 3 and 4 concerning hotel development in Dominica and Grenada. However, in relation to mode 4 this means that there are no limitations for all categories of persons except contractual service suppliers and independent professionals.

In respect of hotel management, Antigua is the only OECS member which has made commitments in this area. There are no limitations on market access or national treatment in modes 1, 2 or 3. In terms of mode 4 the presence of natural persons Antigua has not provided market access or national treatment for the provision of hotel management services by EU nationals as limitations in both market access and national treatment remain unbound except as indicated in the horizontal commitments. This mode remains unbound except for Key Personnel and Graduate Trainees not available locally. Every person who is not a national of Antigua and Barbuda must have a valid work permit before commencing employment in the country.

Marina services is another sub division of tourism and travel related services where commitments have been made by all OECS EPA signatories except St. Vincent. Antigua, Grenada and St. Lucia do not have any limitations on market access concerning modes 1 or 2. Dominica and St. Kitts and Nevis remain unbound as far as mode 1 is concerned whilst for mode 2 there are no restrictions. Regarding Mode 3 Antigua, Dominica, St. Kitts and Nevis and St. Lucia have two types of restrictions. The first relates to vessels 30 – 100 feet and marinas with more than 100 slips whilst the second type focuses on vessels over 100 feet and marinas with less than 100 slips. Grenada remains unbound. Mode 4 remains unbound in all five of the OECS territories which have made commitments in marina services.

In terms of limitations on national treatment Antigua, Dominica, Grenada and St. Kitts and Nevis and St. Lucia have none concerning modes 1 and 2. Regarding

mode 3 government subsidies may be limited to nationals in Antigua, St. Kitts and Nevis and St. Lucia. However, in Dominica and Grenada mode 3 remains unbound in relation to European service desirous of providing marina services in those islands. Last, all five of the OECS EPA signatories which made commitments concerning marina services have declined to provide national treatment regarding mode 4.

Spa services is the final sub sector in which commitments were made by all OECS EPA signatories except St. Lucia that will be examined here. In those countries there are no limitations on market access concerning modes 1 and 2. Regarding mode 3 Dominica and Grenada have no limitations on market access but in Antigua and St. Kitts limitations exist whereby joint ventures must be concluded between foreign investors and locals in each of those islands. In St. Vincent mode 3 remains unbound except as indicated in the horizontal commitments which was outlined above. In relation to mode 4 limitations on market access in Antigua, Dominica, Grenada, St. Kitts and St. Vincent they remain unbound.

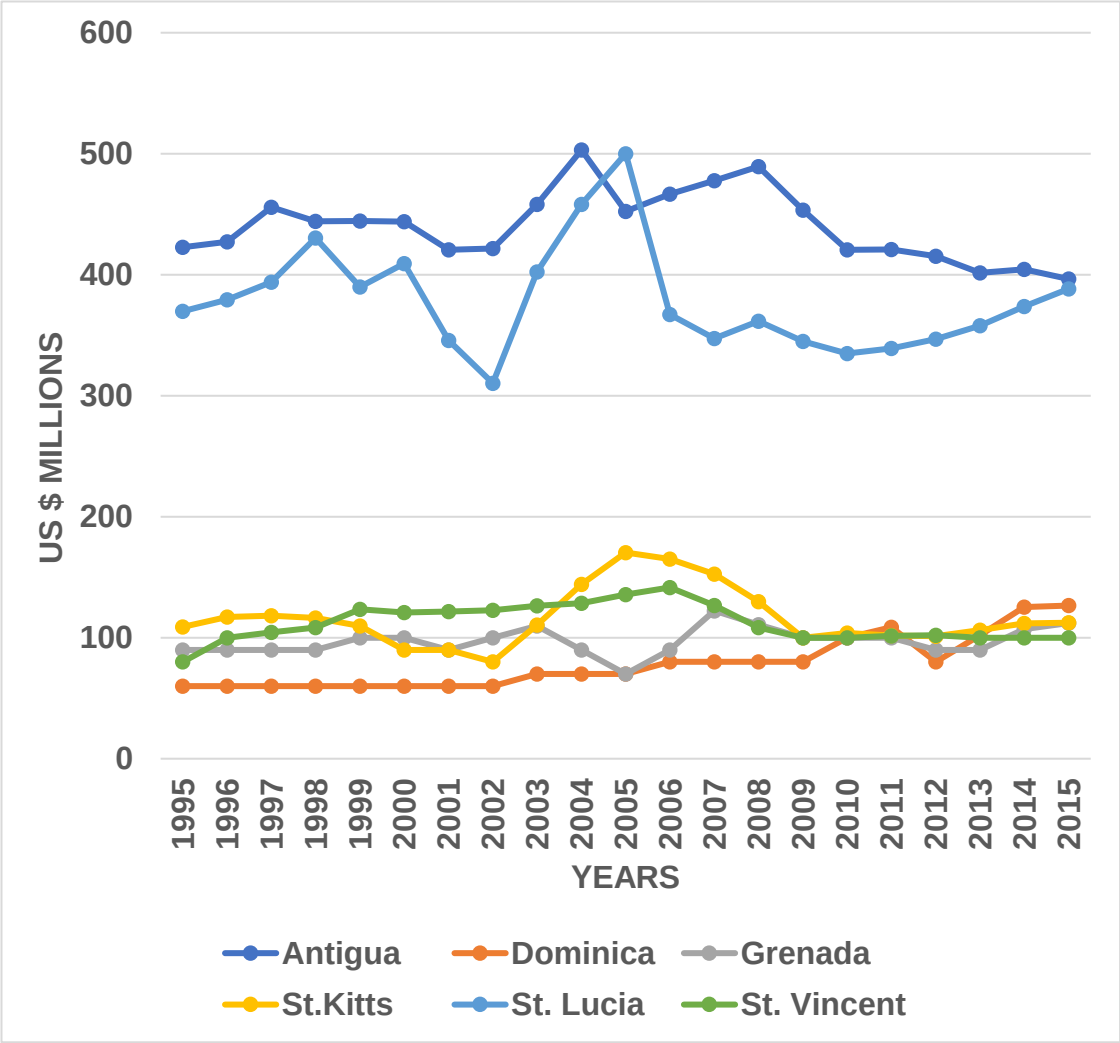
Focusing on limitations regarding national treatment there are no restrictions on modes 1 and 2 in all 5 OECS territories which made commitments concerning spa services. As far as mode 3 is concerned there are no restrictions in Antigua and Grenada. However, in St. Kitts and Nevis government subsidies may be limited to nationals whilst in Dominica and St. Vincent mode 3 remains unbound. Regarding mode 4 limitations on national treatment remain unbound in all 5 territories.

In what follows, the economic importance of tourism to the OECS EPA signatories is highlighted using relevant statistical data to argue that this is the reason why tourism services were included in the EPA for liberalization. At the same time the important role which the developed world plays in relation to the tourism sector in the Caribbean is highlighted.

2.7 THE TOURISM SECTOR IN THE OECS.

Throughout Chapter 5 of Title II of the EPA, development cooperation is only mentioned regarding tourism services which indicates that there is a level of significance attached to the tourism sector in the Caribbean in terms of economic development. Tourism in the Eastern Caribbean has become the leading contributor to socio-economic development only within the last 20 years evidenced by substantial sums of revenue earned from of visitor expenditure. (See Figure 10).

FIGURE 10. VISITOR EXPORTS (FOREIGN SPENDING) US$ MILLIONS (REAL PRICES) OECS EPA SIGNATORIES 1995 - 2015.



SOURCE: WORLD TRAVEL AND TOURISM COUNCIL (2017)

Three things become clear from looking at Figure 10, the first is that Antigua has consistently accounted for the majority of foreign spending by tourists among the OECS EPA signatories between 1995 and 2015 and has been closely followed by St. Lucia. Second, all six of these island states earn substantial revenues from the tourism industry. Third, visitor exports declined and/or remained constant among these SIDS for the most part between 2000 and 2001 when there was a recession in major source market regions. Then, economic output fell from 5.18% to 1.77% in Canada while it declined from 3.88% to 2.23% in the EU and in the United States it decreased from 4.09% to 0.97%. Declines were recorded in Antigua, Grenada and St. Lucia where revenues decreased to US $420.68 million, US $90 million and US $345.82 million respectively. During that same period visitor exports remained at USD $60 million and USD $90 million in Dominica and St. Kitts respectively. Only St. Vincent experienced an increase in visitor exports from USD $120.92 million to USD $121.54 million.

The pattern repeated itself between 2008 and 2009 during the Global Financial Crisis when economic output fell from 1% to -2.94% in Canada, from 0.45% to -4.38% in the EU and from -0.29% to -2.77% in the United States**.** In that one year period visitor exports fell from USD$ 489.41 million to USD $453.43 million in Antigua; from USD$ 110.87 million to USD $100 million in Grenada; from USD $129.83 million to USD $100 million in St. Kitts and Nevis; from USD $361.46 to USD $344.92 million in St. Lucia. and from USD $108.5 million to USD $100 million in St. Vincent. Dominica was the only island where tourist revenues remained constant at USD $80 million.

It is also worthy to consider the relationship between economic activity in Canada, the European Union and the United States and tourist arrivals from those regions. This will facilitate understanding whether economic activity in the aforementioned source markets during the period 1998 to 2013 had a strong or weak association with tourist arrivals concerning the OECS EPA signatories.

Using GDP growth (annual %) data from the World Bank concerning the aforementioned source markets and tourist arrivals data from each of them a correlation analysis was performed. It was found that there was a weak association between Canadian GDP growth and Canadian tourist arrivals

regarding Antigua and Barbuda, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. Only Dominica's correlation coefficient showed a moderate association between Canadian GDP growth and tourist arrivals from that market. Regarding the EU, the correlation coefficient of Antigua and Barbuda was the only one which indicated a strong relationship between both variables. All other territories recorded moderate or weak associations. Finally, in relation to the American market Antigua and Barbuda, Grenada and St. Kitts and Nevis all recorded weak associations between American GDP growth and tourist arrivals from the United States. Conversely, the correlation test concerning Dominica, St. Lucia and St. Vincent and the Grenadines all indicated strong relationships between GDP growth in the United States and American tourist arrivals into those territories.

This analysis indicated that sometimes there was a moderate, weak or strong association between economic growth in the source market regions and tourist arrivals to these SIDS. Where the relationship was strong between the two variables economic growth would have been characterised by greater productivity and would have generated higher wages resulting in increased disposable incomes for individuals. In turn, this would stimulate demand for other goods and services such as international travel (tourism). Hence, the link between economic growth, income and international travel (tourism) has been established. The role of income which is a key determinant of tourism demand, is explored later in greater detail in chapters 4 and 7.

Other data sourced from the World Travel and Tourism Council (WTTC) presented in Figure 11 illustrates the important role that tourism played in relation to its contribution to Gross Domestic Product, Employment, Visitor Exports and Investment in the economies of OECS EPA signatories for 2016.

When expressed in terms of percentage shares of GDP the economic significance of the tourism sector in the OECS EPA signatories becomes clear. In decreasing order tourism contributed 60.4%, 39.6%, 34.7%, 25.1%, 22.3% and 20.2% of the total GDP in Antigua and Barbuda, St. Lucia, Dominica, St. Kitts, and Nevis, St. Vincent and Grenada respectively.

The total contribution to GDP is GDP generated by the tourism sector plus its indirect and induced impacts. (Vellas 2011: 4) noted that the former "concern intermediate consumption for goods and services in the tourism sector. These are goods and services that tourism companies purchase from their suppliers forming the tourism supply chain." According to the (WTTC Reports 2017: 2) "the induced contribution measures the GDP and jobs supported by the spending of those who are directly or indirectly employed by the travel and tourism industry." (Husbands and Carter 2000) investigated the contribution of the tourism industry to human development in the region noting it mainly occurred through household and government activities. The former consisted of purchased items such as food, education and health services and the propensity to spend income on these necessities was driven by the level and distribution of income across households. Equally important for consideration was who controlled household expenditures. It was argued that poorer families spent a higher proportion of their income on human development items as opposed to families with higher incomes. It was also contended that female headed household had similar spending patterns.

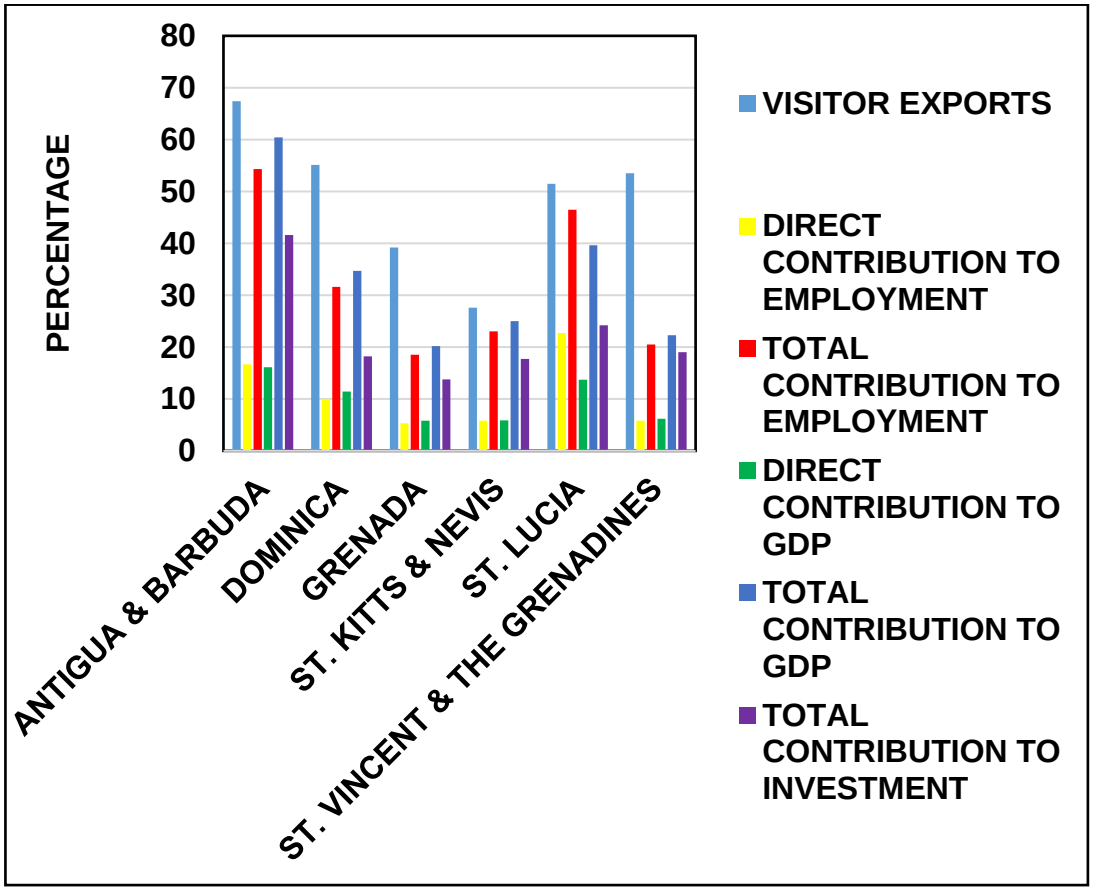
When the data related to the direct contribution of tourism to GDP is considered it is recognized that the sector was responsible for 16.1% of contributions. The country which recorded the second highest percentage in terms of direct contributions to GDP was St. Lucia with 13.7% This was followed by Dominica where the sector directly contributed 11.3% to that island's GDP. The other islands – St. Vincent, St. Kitts and Nevis and Grenada recorded contributions of 6.2%, 5.9% and 5.8% respectively. According to the WTTC Economic Impact Reports 2017 the direct contribution of tourism to GDP is GDP which has been generated by businesses in the travel trade sector that deal directly with tourists. It is the total sum of tourism expenditure within a country less the imports made by businesses in the travel trade sector.

Regarding total contribution to employment, tourism was responsible for 54.3% of employment in Antigua. In Dominica, this economic sector provided just over one third of the jobs on that island or 31.6% of them. Over in Grenada, just under one fifth of Grenadians or 18.5% of the labour force owed their livelihood to the sector. In St. Kitts and Nevis 23.9% of the population in this twin island state was employed in the tourism industry. Of all the islands St Lucia employed the largest

share of its population – almost half 46.5% - in the tourism sector. Last, the industry provided jobs for 20% of Vincentians. Concerning direct contribution to employment tourism provided 16.7%, 10.4%, 5.3%, 5.8%, 22.7% and 5.8% of jobs in Antigua, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent respectively.

In relation to the percentage share of total exports, tourism was responsible for 67.4%, 55.1%, 53.6%, 51.6%, 39.2% and 27.6% of exports in Antigua and Barbuda, Dominica, St. Vincent and the Grenadines, St. Lucia, Grenada and St. Kitts respectively. Visitor exports from tourism is another indicator which was measured that illustrated the economic importance of the sector these islands. It accounted 67.4% or two thirds of total exports in Antigua. In Dominica, St. Vincent and the Grenadines and St. Lucia such exports represented over half of the total exports or 55.1%, 53.6% and 51.6% respectively. Tourism accounted for just under 40% (39.2%) and 27.6% of total exports in Grenada and St. Kitts.

FIGURE 11 – PERCENTAGE SHARE CONTRIBUTION OF TOURISM TO VISITOR EXPORTS, EMPLOYMENT, GDP AND INVESTMENT IN OECS EPA SIGNATORIES (2017)



SOURCE WORLD TRAVEL AND TOURISM COUNCIL (2017)

In order to get a deeper understanding of the economic importance of tourism to the OECS EPA signatories it is imperative to consider some statistical data which is presented in the format of a monetary value. For example, investment, visitor exports, the direct and total contributions of tourism to GDP were all measured in the format of millions of United States dollars.

Figure 12 below illustrates that Antigua received the largest total regarding investment in the tourism sector which was US$133.5 million. St. Lucia received the second highest total in investment of US$72.5 million. This was followed by St. Kitts and Nevis, St. Vincent and the Grenadines, Grenada and Dominica

where inflows totalled US$61.9 million, US$32.1 million, US$23.9 million and US$11.7 million respectively.

The direct contribution of tourism to GDP was highest in Antigua and Barbuda which amounted to US$214.1 million. Meanwhile in Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines it stood at US$60.1 million, US $55.3 million, US $56.8 million, US $ 198 million and US $47.8 million respectively.

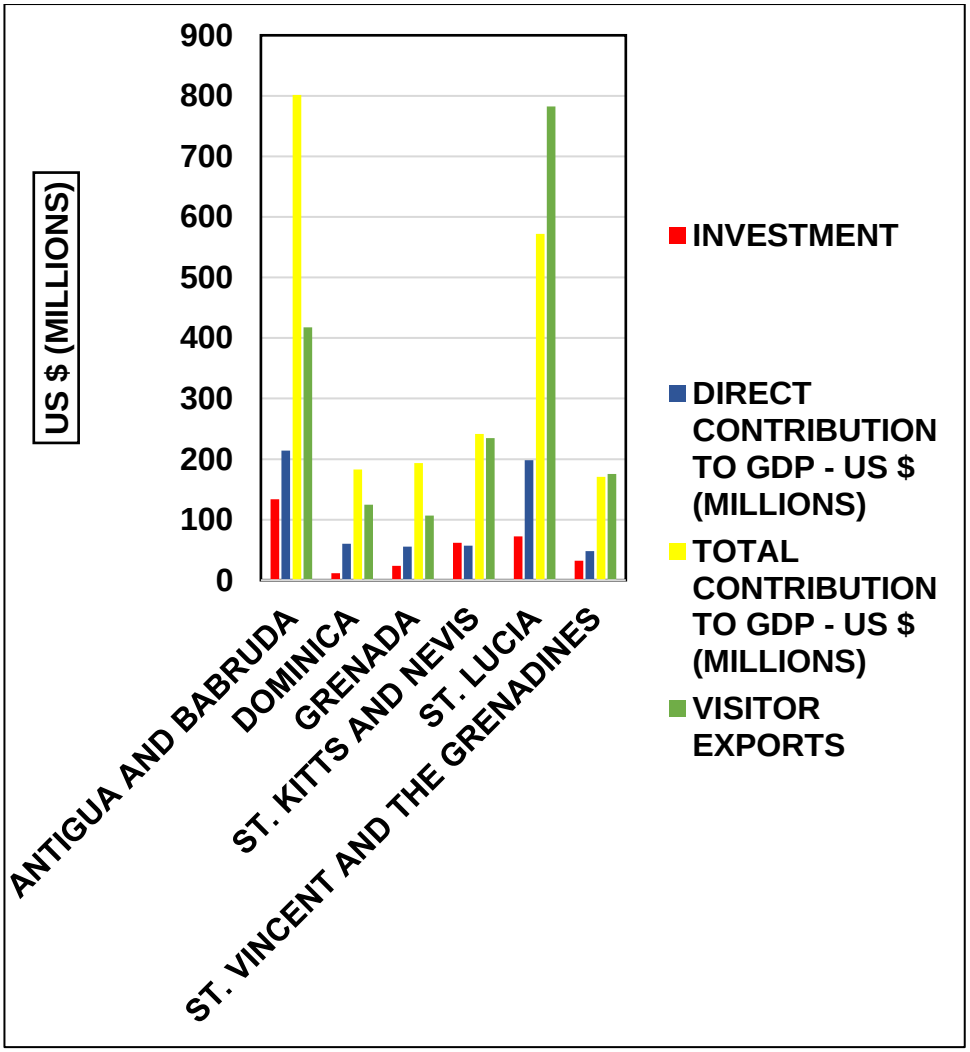
Concerning tourism's total contribution to GDP this indicator ranged from US $170.8 million in St. Vincent and the Grenadines to US $801.4 million in Antigua and Barbuda. GDP contribution in ascending order from the other territories was as follows US$ 182 million – Dominica, US $193.7 million – Grenada, US $241.4 million – St. Kitts and Nevis and US $572 million – St. Lucia.

In relation to visitor exports in 2016 St. Lucia earned the most revenue of these islands US$782.5 million. This was followed by Antigua and Barbuda which earned US$417.5 million. St. Kitts and Nevis, St. Vincent and the Grenadines, Dominica and Grenada earned US$234.9 million, US$175.5 million US$124.9 million and US$106.7 million respectively.

Interestingly in 2016 St. Lucia earned almost twice as much as Antigua and Barbuda did from tourism even though it received almost half the total amount of investment inflows of Antigua. This may possibly have been attributed to St. Lucia attracting more wealthy visitors, visitors who are more inclined to spend while on vacation or to executing a better tourism marketing campaign than Antigua.

Given this set of information which clearly illustrates the economic importance of the tourism sector to OECS EPA signatories it is understandable why CARIFORUM governments pushed for tourism services to be included within the EPA for liberalization.

FIGURE 12. TOURISM INVESTMENT, DIRECT CONTRIBUTION TO GDP, TOTAL CONTRIBUTION TO GDP AND VISITOR EXPORTS IN US $ (MILLIONS) - 2017

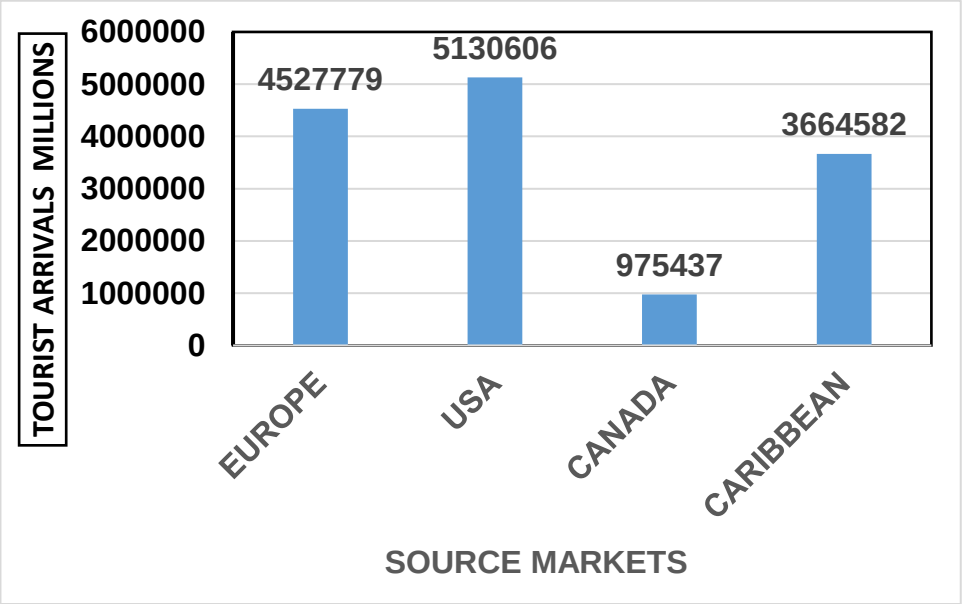


SOURCE: WORLD TRAVEL AND TOURISM COUNCIL REPORTS – ECONOMIC IMPACT (2017).

2.7.1 CARIBBEAN TOURISM SOURCE MARKETS

The reason why reference has been made to the United States, Canada and the European Union is because they along with the Caribbean are the major source markets for tourists visiting the Caribbean. Figure 13 illustrates that for the period 1997 to 2013 the United States provided the most tourists to the sub region followed by Europe, the Caribbean and Canada in that order.

FIGURE 13. SOURCE MARKET TOURIST ARRIVALS TO OECS EPA SIGNATORIES 1997-2013.



SOURCE: DATA ADAPTED FROM NATIONAL TOURIST OFFICES OF OECS EPA SIGNATORIES (2018).

There are several reasons why these source markets are the most important to the sub region and the Caribbean in general. First, North America and the Caribbean are both located in the same hemisphere and are within three to four hours of each other by air. Second, regarding Europe, in particular the United Kingdom, there was an exodus of many West Indians to that country in the 1950s and 1960s. Many of them have remained in the United Kingdom and return to the region for holidays very often. Third, the Caribbean is characterised by a high level of cultural integration whereby nationals travel intra-regionally to partake in or simply attend sporting events and cultural festivals. Fourth, within the Caribbean there is a rich history of persons relocating from one island to another and thus there is a segment of the tourism market who will visit friends and relatives. Fifth, as indicated previously all of the OECS EPA signatories were once United Kingdom colonies. Given this strong colonial connection each of these islands targets the United Kingdom for tourists in their annual marketing campaigns.

2.7.2 THE CARIBBEAN TOURISM PRODUCT

Countries in the Caribbean have been able to establish very successful tourism industries because the region benefits faster regarding revenues and employment than any other region due to unfavourable economic conditions in traditional sectors (Jayawardena 2002: 88-89) However, according to (Jayawardena 2002: 90) in order to build on its successes the Caribbean will have to supply a world class product that caters to the altering tastes and needs of international travellers.

Concerning the Caribbean tourism product (Zappino 2005: 11-12) suggested that it can be sub-divided into seven categories namely Sun-Sand-Sea; cruise, yachting, sport tourism, culture and events, ecotourism and health tourism. It was acknowledged that the Sea-Sand-Sun was the main tourism product supplied by the Caribbean and it featured the “all inclusive” formula. Cruise tourism was considered as the second most important tourism product since there were approximately 17.3 million cruise passengers in 2004. At the time of writing the article the author recognised that the impact of cruise tourism was small compared to other products however research by the Florida Caribbean Cruise Association (FCCA) had indicated that new markets were being attracted to the region and encouraging land-based vacations. Regarding yachting it was observed that it serves a specialty market and it has facilitated the hosting of events which position destinations such as Antigua as that hosts the Antigua Sailing Week as a yachting centre. In relation to sport tourism (Zappino 2005) opined that the region is known for the opportunities related to diving. It was further stated that several of the region’s countries would be organizing the then upcoming 2007 Cricket World Cup and that this would contribute to local economies and attract thousands of tourists. Culture and events tourism is another dimension of the Caribbean tourism product which attracts visitors to the region. The examples of St. Lucia’s Jazz Festival and Trinidad and Tobago’s Carnival were cited and it was argued that festivals can improve low periods within the tourist season. It has been pointed out that ecotourism can deliver economic advantages for countries by contributing to the protection of natural and cultural resources whilst involving local communities. Also, it is considered to be a viable form sustainable of tourism development. Finally, health tourism,

has been recognised as a viable market for English speaking Caribbean to pursue. These islands have several characteristics including attractive climate and environment, well trained practitioners, good communications telecoms and transport networks, excellent tourism services and educated populations and lower labour costs than the developed world.

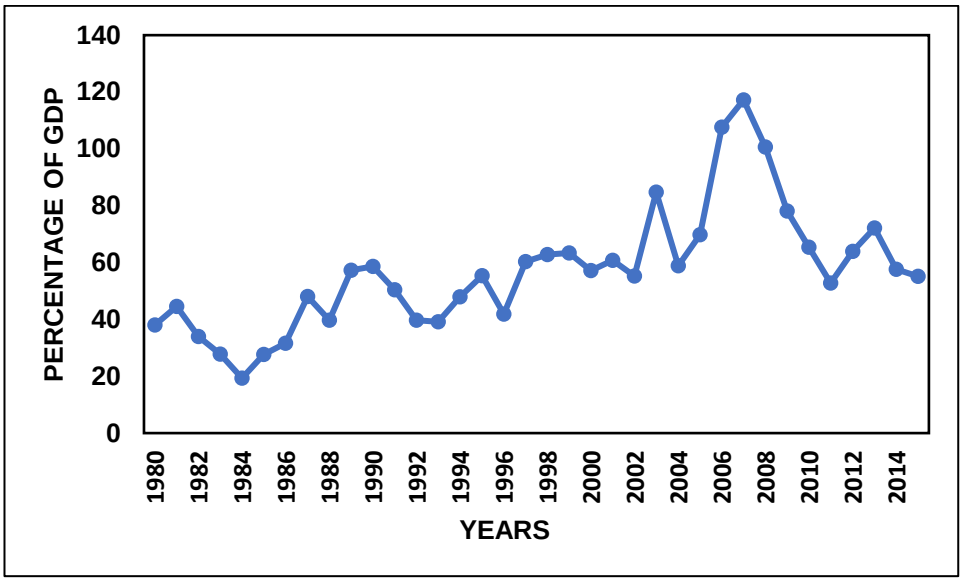
2.7.3 CARIBBEAN TOURISM AND FOREIGN INVESTMENT

To successfully pursue high-end market segments such as golf, yachting and even health tourism incentives in the form of tax concessions are usually offered as inducements to attract foreign investors as highlighted by (Van Parys and James 2010). They may be an individual, a group of individuals or a multinational hotel chain desirous of constructing golf courses, spa clinics or marinas along with a hotel property which will diversify a country's product offering. Governments in the sub region have also used citizenship by investment programmes to attract investors. St Vincent is the only OECS EPA signatory that does have such a programme. Another mechanism used to attract FDI involves investment promotion agencies within each island. Between 1997 and 2002 the tourism sector has been the largest recipient of foreign direct investment in the Eastern Caribbean Currency Union as is illustrated in Appendix 4.

This trend has continued into the 2000s and has been acknowledged in the (Economic Commission for Latin American and Caribbean Briefing Paper 2015: 76) which states "For many economies the tourism sector is the largest earner of foreign exchange and primary destination for investment." However, this was not always the case as (Cannonier et al 2007: 24) noted "During the 18th Century, agriculture dominated economic activity particularly in developing countries. By the middle of the 20th century, manufacturing overtook this dominant role of agriculture and so foreign direct investment took a slightly different form. Today the service sector has become the largest and possibly the fastest growing throughout the world"

Within the OECS EPA signatories foreign direct investment has played an instrumental role in the economic development of these microstates. Figure 14 illustrates the annual total of FDI inflows as a percentage of GDP for the sub-region as a group.

FIGURE 14. ANNUAL TOTAL FDI INFLOWS AS A PERCENTAGE OF GDP-OECS EPA SIGNATORIES 1980-2015.



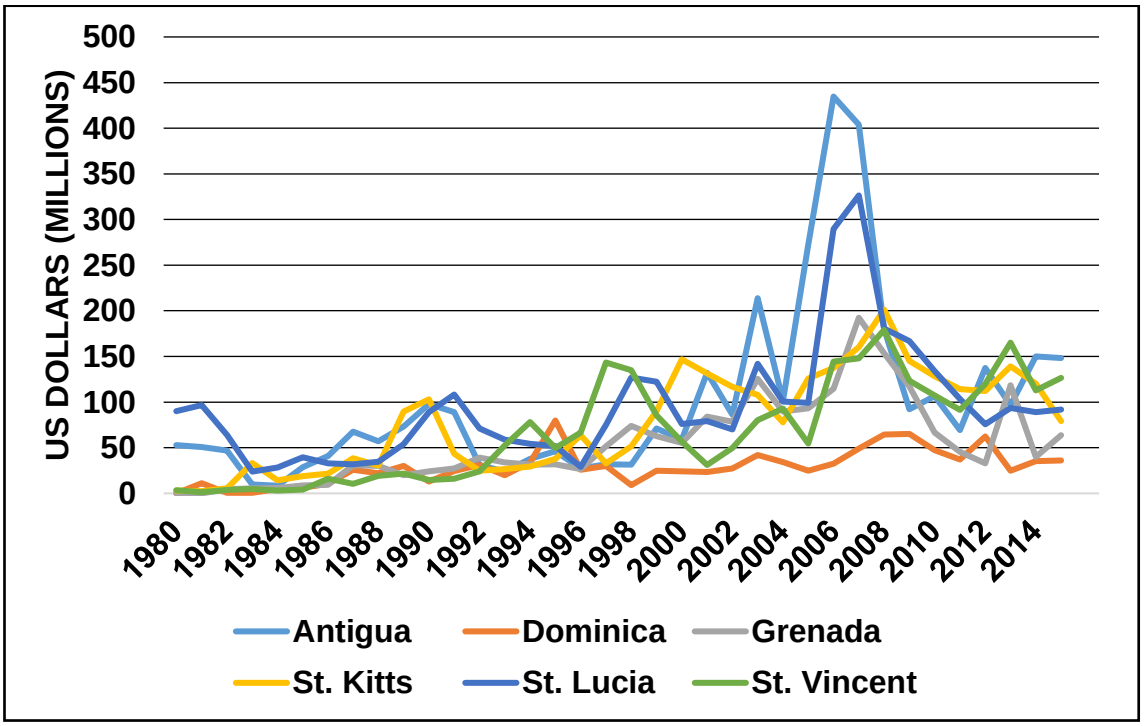
SOURCE: UNCTAD STAT (2017)

Several trends are detectable. First, between 1980 and 1996 the annual total of FDI fluctuated decreasing to a low of 19% in 1984 and increasing to as high as 58% of GDP in 1990. Second, in 1981, 1991 and 2008 during periods of recessions the annual total of FDI inflows declined from 44% to 33%, from 50% to 39% and from 100% to 78% respectively. Third, between 2003 and 2004 annual total of FDI inflows declined from 84% to 58%. This may have been attributed to the Gulf war which was taking place at that time. Research executed by (Pierpont 2005) indicated that conflict generally has a negative effect on FDI per capita. Fourth, in 2005, 2006, 2007 and 2008 the GDP inflows of the OECS EPA signatories accounted for 69.7%, 107.6%, 117% and 100% respectively of GDP. These phenomenal increases might have been attributed to the fact that the Caribbean was hosting the Cricket World Cup in 2007 and FDI inflows contributed to the development of cricketing stadia through the region. Research

undertaken by (Jakobsen et al 2013) investigated whether there was a link between hosting a major sporting event and the amount of FDI a country receives. They discovered that a country hosting a mega sports event does not always reap the benefits of increased FDI inflows whilst in other cases some FDI benefits accrue to the host. In particular hosting a major nationwide football tournament might have a small impact on FDI inflows in the years leading up to the event.

At the country level it is clear to see that there were declines in inflows of FDI in the early 1980's in the sub-regional economies of EPA signatories. Between 1980 and 1981 Antigua and Barbuda's FDI inflows decreased from US $52 million to US $50 million, St. Kitts and Nevis' declined from US $2.95 million to US $2.4 million and St. Vincent's FDI inflows moved from US $3.23 million to US $1.30 million. During the one year period 1981-1982 Dominica's FDI inflows declined from US $11 million to US $0.45 million and St. Lucia's decreased from US$ 96.7 million to US$ 64.1 million. Only Grenada's FDI inflows increased from zero in 1981 to US $4.52 million. These declines all occurred during the early 1980s recessions which affected the United States, Canada and the United Kingdom Similarly between 2008 and 2009 5 of the 6 islands experienced declines in foreign direct investment. Antigua's inflows declined by almost 50% from US $180 million to US $91 million. Grenada experienced a decrease of US $36 million when its FDI inflows moved from US $153 million to US $117 million. The economy of St. Kitts and Nevis lost US $57 million in FDI inflows which decreased from US $201 million to US $144 million. St. Lucia saw its FDI inflows fall from US $180 million to US$156 million whilst St. Vincent's decreased by US $56 million from US $179 million to US $123 million. However, only Dominica witnessed an increase in inflows of foreign direct investment to the tune of US $1 million (See Figure 15).

FIGURE 15. FDI INFLOWS USD MILLIONS (REAL PRICES) 1980-2015 – OECS EPA SIGNATORIES.



SOURCE: UNCTAD STAT (2017)

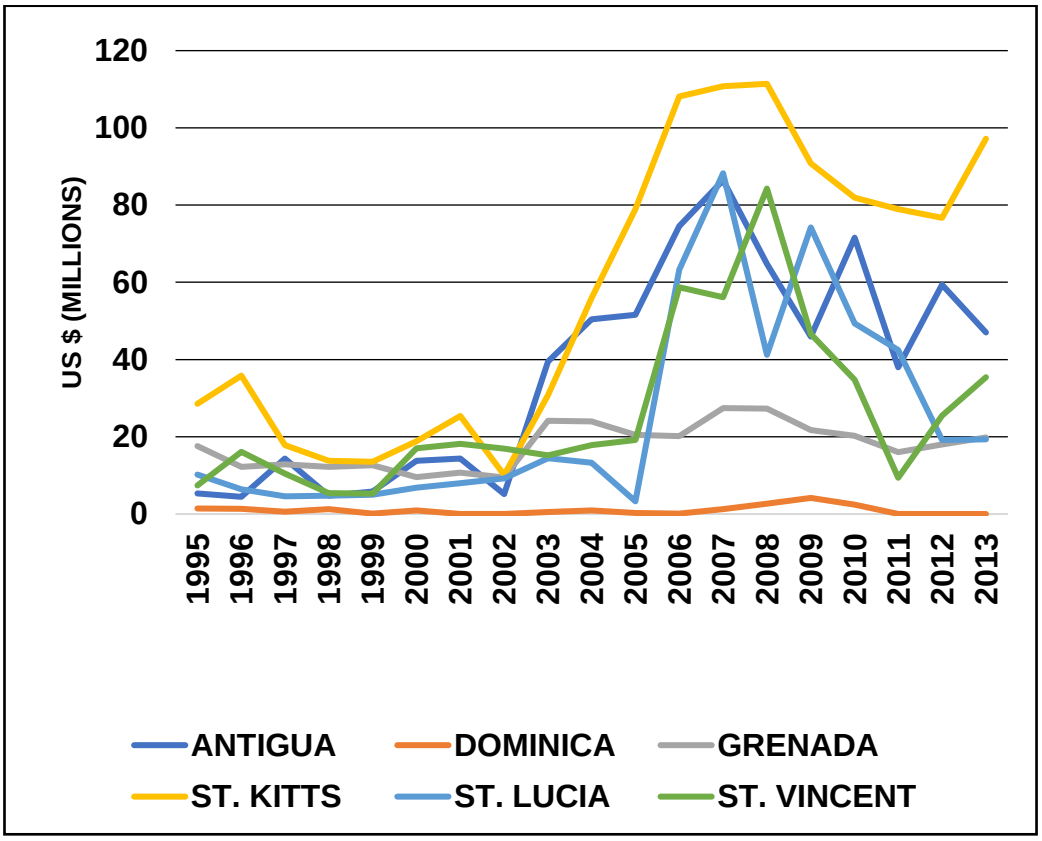
Additionally, it is evident is that FDI inflows decreased significantly in 1996 and 2011 compared to inflows in 1995 and 2010 respectively. This may have been attributed to the hyperactive hurricane seasons in 1995 and 2010. (Escalares and Register 2011) empirically tested for a relationship between natural disasters and foreign direct investment and discovered that the former are found to be negatively and significantly correlated with the latter. Furthermore, between 2001 and 2002 every island except St. Vincent experienced decrease in FDI inflows. These declines may possibly have been attributed to the recession then as well as the September 11th 2001 terrorist attacks in the United States. An identical pattern occurred between 2003 and 2004 during the period of the Gulf War. Finally, in the period 2004 to 2006 leading up to the hosting of the Cricket World Cup in 2007, all of the islands experienced substantial inflows of FDI. In the case of Grenada such inflows may have increased greatly due to the rebuilding efforts following Hurricane Ivan in 2004 along with the island's preparation to co-host the Cricket World Cup. Regarding Antigua and Barbuda, its increase in FDI inflows

was attributed to tax incentives introduced to attract tourism investment in 2003. It was discovered by (Van Parys and James 2010) that tourism investment in Antigua and Barbuda burgeoned more after 2003 when compared to the other six Eastern Caribbean Currency Union (ECCU) member countries.

According to the CARICOM Foreign Direct Investment of Flows Report 2002-2013 the investment received by the OECS EPA signatories it is mainly of four types namely equity capital, reinvested earnings, land sales and other. Regarding the tourism industry the ECLAC Briefing Paper (2015) acknowledged the importance of land sales as a form of tourism related foreign direct investment to some of the sub-regional economies. There, it was noted that land sales provided 5% of FDI inflows for Dominica and as much as 63% (the average between 2007 and 2011) in St Kitts and Nevis. This gave an average of about one third of all flows in reporting economies. Figure 16 below depicts land sales in millions of US dollars earned by each of the microstates which are the focus of this study for the period 1995 and 2013.

The trend clearly shows that the period between 1995 and 2001 was characterised by fluctuations in all of the islands. In the 2001-2002 period which coincided with the international recession there were decreases in land sale revenues in each island except St. Lucia. By 2008-2009 the identical pattern almost repeated itself except that now Dominica joined St. Lucia in recording an increase in revenues from land sales. Since 2009 Antigua has experienced fluctuations in revenues from land sales whilst those in Dominica declined continuously until 2013. Earnings in both Grenada and St. Vincent decreased between 2009 and 2011 before increasing continuously through till 2013. St. Kitts and St. Lucia have experienced continuous declines in land sales revenues between 2009 and 2011 before increasing thereafter.

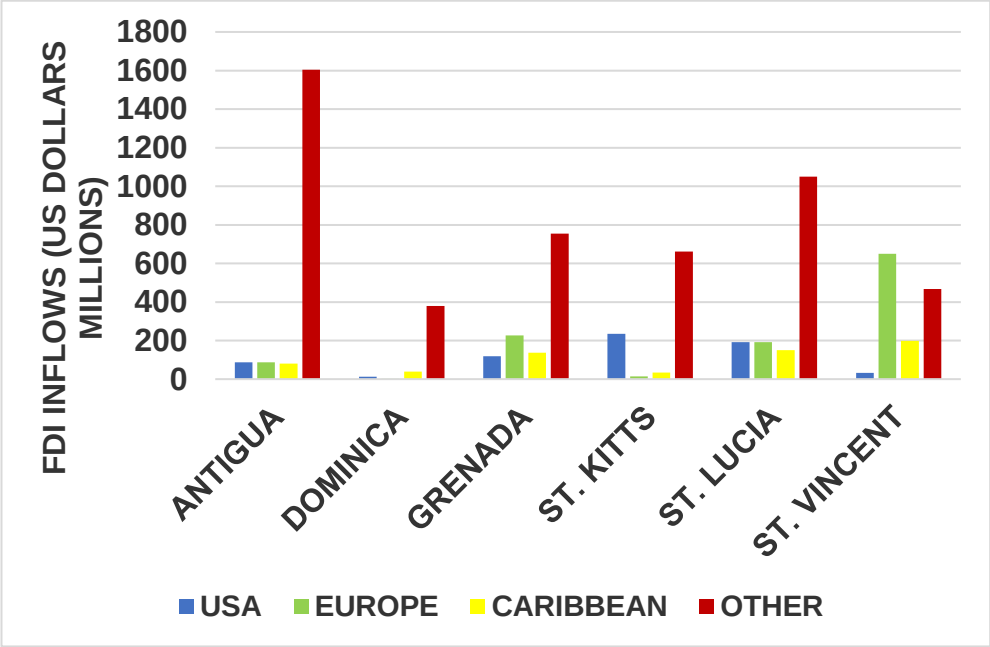
FIGURE 16. LAND SALES US$ (MILLIONS) (REAL PRICES) - OECS EPA SIGNATORIES 1995-2013.



SOURCE: CARICOM (2017)

The geographic source regions of these investments are the United States, the European Union, the Caribbean and others. Figure 17 illustrates the amount of foreign direct investment each of the OECS EPA signatories attracted between 1995 and 2013 by source region. Each country except St. Vincent received the majority of its FDI from countries in the category of Other. Antigua received a total of US $1856.5 million followed by St. Lucia, St. Vincent, Grenada Dominica and St Kitts which were recipients of US $1584.2 million, US $1349.2 million, US $1238 million, US $944.2 million and US $430.77 million respectively.

FIGURE 17. FDI INFLOWS (REAL PRICES) (US $ MILLIONS) FOR OECS EPA SIGNATORIES BY SOURCE REGIONS 1995-2013.



SOURCE: CARICOM (2017)

2.8 CONCLUSION

This chapter provided background information on the genesis and development of the OECS. In the process, it examined several themes which are pivotal to this study to show how their development has contributed to the liberalization of trade in tourism services between the EU and the OECS. It has also indicated the importance of the services sector particularly the tourism service sector to the sub-regional economies. Furthermore, it has been clearly demonstrated that tourism is the primary driver of foreign direct investment to the sub region. Thus, it is clear to see that this is the primary reason why CARIFORUM trade negotiators and the political directorate in the Caribbean decided to push for the inclusion of tourism services in the EPA for liberalization.

CHAPTER THREE

TRADE THEORIES

3.1 INTRODUCTION

This third chapter of the thesis reviews several sets of literature regarding the main international trade theories and regional trade theory. Its purpose is to ascertain which trade theory is empirically linked to the phenomenon trade in services and is best suited for informing the proposed study which focuses on the liberalization of trade in tourism services. The reason being, previous studies undertaken by (Morgan and Katsikeas 1997), (Sen 2000) and (Lam 2015) which reviewed international trade theories failed to establish the nexus between trade theory and trade in services.

Section two, focuses on a range of trade theories and in doing so, it will ultimately illustrate which of these trade theories is directly linked to trade in services. First it, reviews the classical (absolute advantage and comparative advantage) and neo classical international (Heckscher Ohlin and Product Life Cycle) trade theories. Next, it examines whether the classical and neo-classical trade theories can be applied to trade in services as they are to trade in goods. Section three reviews regional trade theory as developed by (Jacob Viner 1950). This theory is included as the dissertation is focused on the liberalization of trade in tourism services between two regional trade arrangements It also highlights further developments of the theory by noting the important contributions of trade economists such as (Meade 1955), (Gehrels 1957), (Lipsey 1960), (Johnson 1965) and (Cooper and Massell 1965) among others. Section four examines the New trade theory. Section five scrutinizes the period of new regionalism. Section six examines New New trade theory and also establishes the link with the phenomenon trade in services. Finally, section seven presents the conclusion of the chapter.

3.2 INTERNATIONAL TRADE THEORIES AND REGIONAL TRADE THEORY

As stated above this section focuses on trade theories given the topic of the study. What is clear about these international trade theories and regional trade theory is that they were all based on various sets of assumptions and had different focal points (See Appendix 5).

3.2.1 ABSOLUTE ADVANTAGE

International trade theory can trace its roots to 1776 when Adam Smith published his seminal work *An Inquiry into the Nature and Causes of the Wealth of Nations.* There, the theory of Absolute Advantage was outlined promoting free trade as an alternative to mercantilist economic policy which dominated Europe during the 18th century. Embedded within Smith's theory was the concept of the division of labour which showed how specialisation would have an impact on trade flows between the two nations. (Smith 1776) believed that the division of labour yielded increased output, technological development and an enhancement in workers' skills and productivity.

(Salvatore 2011: 35) has summarised Smith's theory succinctly by opining "when one nation is more efficient than (or has an absolute advantage over) another in the production of one commodity but is less efficient than (or has an absolute disadvantage with respect to) the other nation in producing a second commodity then both nations can gain by each specializing in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage. This increase in the output of both commodities measures the gains from specialization in the production available to be divided between the two nations through trade."

This theory was not perfect and critics such as David Ricardo seized the opportunity to further the debate on the development of international trade theory. His contribution to that discourse eventually came to be known as the theory of Comparative Advantage.

3.2.2 COMPARATIVE ADVANATGE

In 1817 David Ricardo published Principles of Political Economy and Taxation where the theory of Comparative Advantage was outlined. Building on the theory of Absolute Advantage of (Smith 1776) Ricardo questioned what would happen if one nation had an absolute advantage in both goods. According to (Salvatore 2011), (Ricardo 1817) believed that if one nation was less efficient than (has an absolute disadvantage regarding) its trading partner in both commodities there was still a case for engaging in international trade. It was felt that the nation with an absolute disadvantage in both commodities should specialize in the production and export of the commodity where its absolute disadvantage is smaller and import that in which its absolute disadvantage is greater.

Associated with specialization are several benefits/effects a country can experience which are known as gains from trade. For instance, specialization can be considered as an indirect method of production as (Krugman et al 2015) have noted. They argued that country A could export product X and trade it for product Y which is imported from country B. Hence, the indirect method of production is realised. It has also been recognised that gains from trade can affect consumption within both countries. Under autarchical conditions the consumption capacity will be equivalent to that of the production capacity in both countries. The advantage of engaging in international trade is that it enlarges the consumption capacity of both countries. A third gain to be achieved from trade pertains to the relative wage rate which is the amount one country's workers are paid per hour compared with the amount workers in another country are paid per hour. This is influenced by the price of the goods and whether or not a country has an absolute advantage in both goods. If a country is in such a position it will enjoy a higher wage after engaging in international trade.

3.2.3 HECKSCHER OHLIN THEORY

A century would pass before the concept of comparative advantage was extended to apply to other elements which also had an influence on international trade between countries. This was the result of academic research undertaken by Swedish economist Eli Heckscher (1919) entitled The Effect of Foreign Trade on the Distribution of Income. This was enhanced by Bertil Ohlin (1933) and published in his book Interregional and International Trade. The combined research of both authors was subsequently named the Heckscher Ohlin Theory.

This theory explained how comparative advantage is based on differences in factor endowments across nations. Thus, it was stated that a country would export goods requiring the intensive use of its most abundant factor whilst importing the commodity whose production required the intensive use of a country's relatively scarce and expensive factor. Essentially, this theorem predicted the pattern of international trade. Also, it highlighted the important features of factor intensity and factor abundance. Regarding factor intensity it is said that if country A produces commodity X it would be deemed as capital intensive if its capital-labour ratio is greater than that used to produce commodity Y in country B. It is not the absolute amount of capital and labour used in the production of commodities that is important in measuring the capital and labour intensity of the commodities, but, it is the amount of capital per unit of labour. In some instances a country may be capital intensive in both commodities. This may be the result of capital being cheaper in the said country as opposed to its trading partner. (Salvatore 2011) opined producers in the capital endowed country will use more capital in their production processes to reduce their overall production costs.

In relation to factor abundance, (Salvatore 2011) noted that there are two ways of defining the concept. The first is in terms of physical units of labour and capital in terms of the overall amount available to each nation. A nation is said to be capital abundant if the ratio of the total amount of capital to the total amount of labour is lower than that of its trading partner. In this instance, it is not the absolute amount of capital and labour available in each nation that is important but rather the ratio of the total amount of capital to the amount of labour.

The second method of defining factor abundance is in terms of relative factor prices which relates to the rental price of capital and the price of labour time in each nation. A nation is classified as capital abundant if its ratio of the rental price of capital to the price of labour is lower than that which exists in its trading partner. Again, it is not the absolute level of the rental price of capital that determines if a nation is capital abundant, but the ratio of rental price of capital to the price of labour time as (Salvatore 2011) stated. The nexus between both definitions is straightforward as the former speaks to the supply of factors only. However, the latter considers both demand and supply since these two key aspects of economics greatly influence the price of a commodity.

Additionally, it has been noted by (Husted and Melvin 2013) that there is a link between the Heckscher-Ohlin theorem and three other theorems namely the factor-price equalization theorem, the Rybczynski theorem and the Stopler-Samuelson theorem. Firstly, as (Salvatore 2011) noted the factor-price equalization theorem states international trade will cause equalization in the relative and absolute returns to homogenous factors across nations. This will result only when the assumptions of the Heckscher-Ohlin theory as outlined in table 1 hold. Factor-price equalization is manifested by having the opposite effects in capital and labour endowed countries regarding wage rates and interest rates. A country specializing in the production of capital intensive goods will reduce its output in labour intensive goods, the relative demand for capital rises causing interest rates to rise while the demand for labour falls causing wages to fall. In the labour endowed country specializing in the production of labour intensive commodities, the relative demand for labour increases as well as wage rates. However, capital intensive goods production will be reduced and as demand for capital falls so too do interest rates which is the rental price of capital. In sum, international trade causes nations characterized by low wage rates to experience increases and those where high wage rates exist in turn experience declines. The identical situation occurs regarding interest rates. The net effect is that international trade reduces pre-trade differences between nations.

Secondly, (Rybczynski 1955 :337-338), in the seminal publication entitled Factor Endowment and Relative Commodity Prices argued “…the maintenance of the same rates of substitution in production after the quantity of one factor has

increased must lead to an absolute expansion in production of the commodity using relatively much of the that factor, and to an absolute curtailment of production of the commodity using relatively little of the same factor." (Husted and Melvin 2013) illustrate the relevance of Rybczynski theorem to the Heckscher-Ohlin model by noting that the increase in the supply of one factor can lead to an outward shift in a country's Production Possibility Frontier (PPF). Furthermore, they demonstrated that the new production point is realized after growth has been achieved in the country's economy.

Thirdly, the (Stopler-Samuelson 1941) theorem states that the abundant factor benefits from international trade at the expense of scarce factor. This was clearly illustrated in the above discussion on factor-price equalization that the dominant factor for example labour – will attract higher wages and in the case of capital – it will attract higher interest rates. Also, production in commodity goods using the abundant resource will increase along with activity in that industrial sector at the expense of other industrial sectors. In view of this (Husted and Martin 2013) have argued that this theorem is an insightful analytical tool for understanding the rationale of some governments' decision-making process as far as trade policy is concerned.

Despite how much the Heckscher-Ohlin theory has aided in the development of international trade theory it faced its toughest moments in the post war era. In 1951 Wassily Leontief empirically tested the theory using data on the American economy from 1947. The research relied on an input-output table which illustrated the inter-sectoral industry flows of goods and services in the American economy. It was expected that results would indicate the United States which was then the most capital-intensive country globally would have exported such commodities whilst importing labour intensive commodities. However, this did not materialize, instead it was discovered that the United States imported capital intensive commodities. These findings are commonly referred to as the Leontief Paradox. Afterwards, Leontief sought to reconcile the paradox with the theory by stating that American labour was thrice as productive as that in the rest of the world. Therefore, the United States should be viewed as being labour abundant thereby synchronizing Leontief's findings with the Heckscher-Ohlin theory. Later research

by (Kreinin 1955) showed that this claim was false or at least overstated as (Husted 2013) noted.

3.2.4 THE PRODUCT LIFE CYCLE THEORY

In the second half of the twentieth century another contribution to the development of international trade theory emerged in the form the product life cycle theory which was forwarded by (Vernon 1966). Previous expositions of international trade stated that trade was driven by either divergent labour productivities or factor endowments. Such theories failed to acknowledge the role which dynamic technological changes play as a determinant of international trade and were based on a constant state of affairs regarding technology as (Carbaugh 2011) argued.

Given this deficiency in trade theory (Vernon 1966) conceptualized the product life cycle theory which illustrated that technological innovation could indeed be viewed as a comparative advantage and determinant of international trade. According to (Carburgh 2011) the theory was applicable to manufactured goods which progressed through a predictable trade cycle that was characterized by five stages

1. Manufactured good is introduced to the home market.
2. Domestic industry exhibits export strength.
3. Foreign production commenced.
4. The domestic industry loses its competitive advantage.
5. Import competition begins.

The connection between product life cycle and comparative advantage has been explained succinctly by (Husted and Melvin 2013). They noted following the development of a new product the inventing country has a comparative advantage and as exports occur the product is copied becoming standardized. This enables competing firms overseas to gain market share if they have a cost advantage in large scale manufacturing of the said product. In that prevailing environment, the comparative advantage shifts from the inventing country to the competing country where operating costs are lower. Ultimately, the inventing

country loses its comparative advantage and becomes a net importer of the product as its monopoly is now eliminated.

Furthermore, (Husted and Melvin 2013) illustrated how this model could be used to reconcile the Leontief Paradox. Using the example of the United States they stated that the United States as the inventing country would initially retain a comparative advantage in recently developed manufactured goods. Since the goods have not yet become standardized it is assumed they are labour intensive. Following standardization which involves the use of capital-intensive production techniques, if the United States subsequently loses its comparative advantage in the specific good and commences importing it, the good will mostly likely be capital intensive.

It should be noted however that the product life cycle theory has limited applicability. (Husted and Melvin 2013: 125) noted this by stating “It represents an attempt to explain trade in manufactured products that require some degree of technical sophistication in their invention, design and development.” It is suitable for explaining the prevailing environment when coloured television sets were invented and manufactured in the United States and exported globally. Regarding other products such as computers and aircraft the theory cannot be applied firmly because each is now considered a mature product and the United States which was an early developer of such products still maintains a comparative advantage. This illustrates the theory’s incapacity to broadly make predictions concerning changes in the location of comparative advantage.

Conversely, (Carbaugh 2011) argued that the product life cycle theory is informative for a firm. In order to maintain its competitiveness a firm must prevent rivals from catching up through continuous innovation to become more efficient. Citing the example of Toyota, it was contended that production efficiencies followed an overhauling of operations and work practices. This included reducing the number of components used in the manufacture of simplified cars.

3.2.5 THE APPLICABILITY OF CLASSICAL AND NEO-CLASSICAL TRADE THEORIES TO TRADE IN SERVICES

Since 1986 when the GATS became a reality, services have been included on the global trade agenda and trade in services has been liberalized via many regional trade agreements. At the time when (Sampson and Snape 1985) were writing no theory concerning trade in services had been developed which stimulated a steady debate among economists regarding whether trade in services is the same thing as trade in goods. According to (Sampson and Snape 1985: 171) “In the absence of a developed theory of trade in services, the theory of trade in goods has often been often applied on an ad hoc basis....”

(Sampson and Snape 1985) identified the characteristics of international transactions in services and distinguished them from international transactions in goods. Subsequently they note that international trade in services may be divided into four categories.

a) Transactions may occur without the movement of factors of production or of the receiver of the service. Such services are produced in the exporting country and then traded internationally. Like goods, they cross the borders of the importing and exporting countries. One example of this can relate to architectural designs which are handled through correspondence and produced in the exporting country.

b) Transactions may occur as a consequence of the movement of factors of production but not of the receiver of the service. Examples of such services are the product of guest workers, including construction teams and the services of imported financial capital.

c) Transactions may occur with the movement of the receiver of the service, but not of the provider. An example of this is the provision of services for international tourists to a specific site such as in the destination country which cannot be shifted. Another example occurs where international students travel abroad to purchase educational services whilst studying at university.

d) Transactions may occur with the movement of both factors of production and the receiver of the service. For instance, a surgeon and a patient may travel to a third country where the patient receives medical treatment. In this example three countries will now be transacting with the host country selling the services of clinics.

Regarding these categories (Sampson and Snape 1985: 179) opine “Separated services, those in category ‘a’ above, are those which can be ‘separated’ from the receivers of the service and the factors of production that provide the service. In the case of these services, particularly when traded internationally, many of the issues in principle resemble those relating to goods.” In this regard the immobility of factors is identical to the assumption of immobility of factors of production between countries under the comparative advantage trade theory.

In the above example, the theory of comparative advantage arose which was termed the comparative cost theory by (Hindley and Smith 1984). They stated that comparative cost can be decomposed into two parts. One of them is the positive or descriptive theory and the other is a normative or prescriptive theory. They say the former explains why the production of particular goods is cheaper (relative to other goods) in one location than in another and therefore why some classes of goods are exported from and others imported to a particular location. Regarding the latter normative theory questions whether the pattern of production and specialisation resulting from international cost differences is economically efficient and socially desirable and investigates what are the best policies a government should adopt concerning international trade.

In investigating whether the theory of comparative advantage applies to trade in services (Feketekuty 1988) noted that (Hindley 1984) questioned whether the movement of people or capital associated with trade in services might invalidate one of the basic assumptions of the theory of comparative advantage (that trade is based on existing differences in the distribution of resources in two trading partners). It would be (Feketekuty 1988) who asserted that (Hindley 1984) rejected the argument stating that an ever-present distribution in differences was a rationale for trade. Also, unimpeded international factor movements would lead to the same adjustments in global output and prices as unimpeded international

trade. Consequently, the theory of comparative advantage could encompass both trade in services and international factor movements. Additionally, (Feketekuty 1988) stated that the theory of comparative advantage does not directly address the issue of foreign direct investment. However, trade and factor movements have identical economic effects on goods and services. Furthermore, it has been recognised that there is nothing within the theory of comparative advantage precluding gains from trade dependent on local investments in facilities.

Feketekuty (1988) also illustrated how the Heckscher Ohlin theory was applicable to trade in services by linking the argument to the issue of competitiveness. It was noted that several factors influence the competitiveness of a country's service sector. In particular, it was shown that the cost of labour and capital and physical proximity are inextricably linked to a country's current endowment of resources. Furthermore, it was argued that the competitiveness of a country is influenced by its cost of labour and the knowledge and skills of local service workers and managers. It was further recognised that developing countries can derive a competitive advantage since they have a low cost of labour which is responsible for the biggest cost in most service industries.

Feketekuty (1988) acknowledged the fact that the Heckscher Ohlin trade theory embraces the comparative advantage theory in respect of resource endowment. It was contended that developing countries faced the disadvantage of scarcity of capital. Thus, they should flourish in service industries which are reliant on substantial inputs of labour and minimal inputs of capital. Therefore, such nations should be successful in data input and computer programming services which are labour intensive activities.

Concerning point 'b' above this can refer to the operation of the Product Life Cycle theory where a country starts exporting goods and ultimately begins producing them overseas. This occurs because the foreign country has a comparative advantage in terms of cost. These goods become competitive including in the home country of the parent company. This theory can be applied to services where for example a service provider in the developed world establishes operations elsewhere globally by availing themselves of opportunities in a foreign market. These benefits may have arisen because of a trade agreement that

liberalises trade in services between both countries. In such an instance there has been an international flow of the factors of production namely labour and capital identical to what occurs under the Product Life Cycle theory.

At the opposite end of the spectrum of the debate (Melvin 1989) argued that the introduction of services requires an alternative approach necessitating a reinterpretation of the law of comparative advantage. The study undertaken by (Melvin 1989) analysed the effect that producer services cause when they are included into the standard Heckscher – Ohlin model. The model developed by (Melvin 1989) is a standard 2X2X2 model with one country being endowed with capital and the other with labour. The former is an exporter of services and importer of commodities and the latter is an exporter of labour-intensive commodities and an importer of services. Thus, trade between these nations occurs according to the Heckscher Ohlin theorem. The study found that if a mobile service is used intensively in the production of a mobile commodity the country that is endowed with the *K* factor will nevertheless import the *K* intensive commodity.

3.3 REGIONAL TRADE THEORY

Regional trade theory has its genesis in the influential publication *The Customs Union Issue* by (Jacob Viner 1950). Like the preceding international trade theories regional theory was also premised on several assumptions. Among these are the following, markets are competitive; there is full employment of economic resources at all times; tariff revenues are redistributed to consumers and there are no externalities in production or consumption.

It is concerned with internal trade liberalization focusing on the reduction or removal of tariffs on intra-regional trade involving countries which have become economically integrated through a preferential or regional trading arrangement. The benefits to be derived from such integration would depend on the depth of integration pursued by the said countries deciding to form a regional grouping. This is based upon the fact that a regional trade arrangement may take the shape of one of five forms. Hence, it may be a trade bloc, a free trade area, a customs union, a common market or an economic union. This process of economic

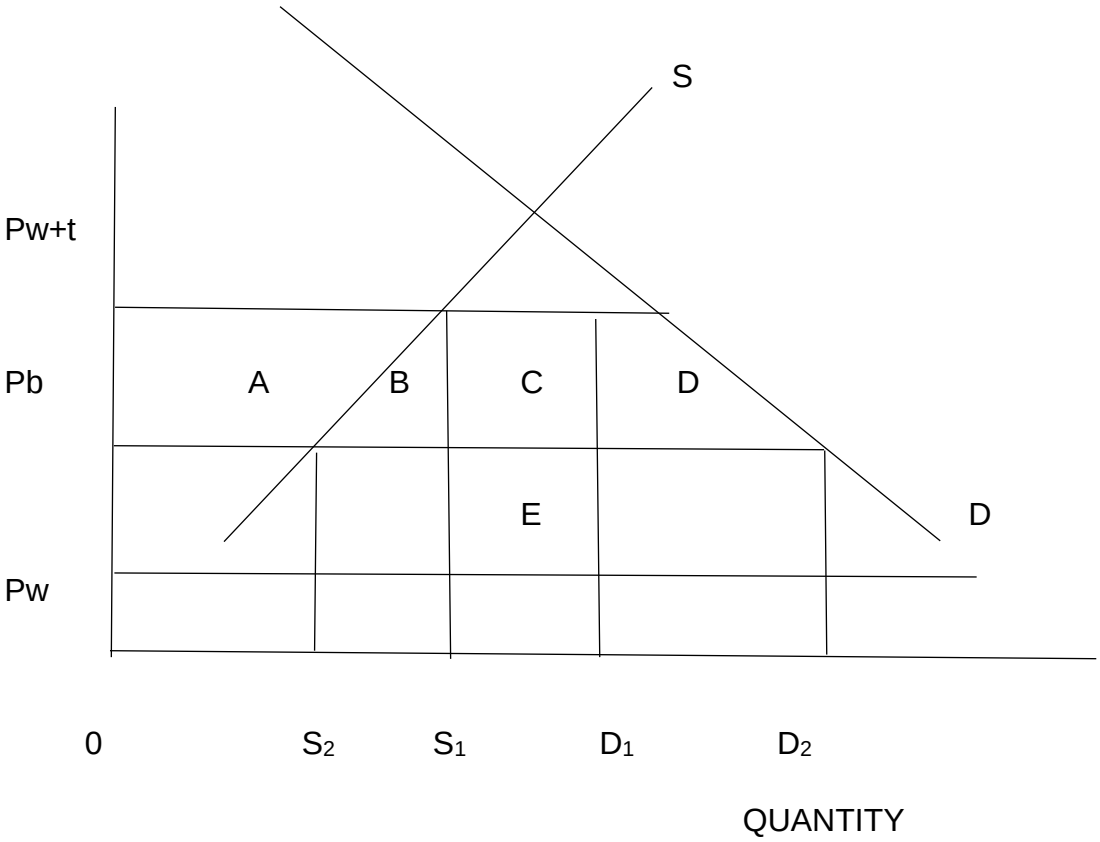
integration was first acknowledged by (Bela Balassa 1961) in his book *The Theory of Economic Integration.* (See Appendix 6)

Prior to this theoretical development by (Viner 1950) the general consensus was that since customs unions led to a partial movement towards global free trade (the first best solution) and their establishment would improve economic welfare. This point was noted by both (Arguello 2000) and (Reardon et al 2002). This belief was disproved by (Viner 1950) who posited that for a customs union to improve economic welfare any purchases occurring in the post union period would have to be obtained from the lowest cost producers or sellers unlike what occurs under a customs union in an instance of trade diversion. Regarding trade diversion, (Viner 1950: 55) stated "where the trade diverting effect is predominant, one at least of the member countries is bound to be injured the two combined will suffer a net injury to the outside world and to the world at large." This comes about because signatories of a regional trade agreement (RTA) trade will internally first before trading with a non-member which maybe a more efficient producer of a commodity also produced by members of the RTA which they sell on the protected internal market of the RTA. Hence, trade diversion involves a welfare loss to the importing country and a welfare gain to an exporting nation. In other instances, trade diversion may benefit consumers in the importing country as the good imported from the regional market may be cheaper than the identical good imported from an extra regional source. (See Figure 18)

Figure 18 illustrates an example where there are two countries and country A imports a given good from the world or from a potential partner. The price of the world good is denoted as "P_w" and that of the potential partner (country B) is given as "P_b". If there was a tariff on imports initially the world price of the good will be denoted as "P_w+t". This levy would also be applicable to country B and its tariff inclusive price would be "P_b+t" and it would be above the world price since country B is less efficient at producing the good than the rest of the world. Consequently, country A will import from the world in favour of country B. Domestic production is given as S_1 and the amount of imports from the world is equivalent to D_1-S_1. Should both countries establish a regional trade arrangement tariffs on intra-regional trade will be abolished. Country B will now have tariff free access to country A's market for its exported goods which can enter that market at the world

price "P_b". This is lower than the tariff inclusive world price "P_w+t". As a result of this, country A will switch its source of supply towards the partner country and away from the world. Consumers are main beneficiaries of this shift in trade policy as they gain from lower prices which are given by "a+b+c+d". Producers and Government are the losers in this situation. The former because of lower domestic prices and also because they supply less to the domestic market given as area "a". The latter experience a loss concerning tariff revenue equivalent to areas "c+e". Therefore, the overall change in welfare is the total of "(b+d)-e".

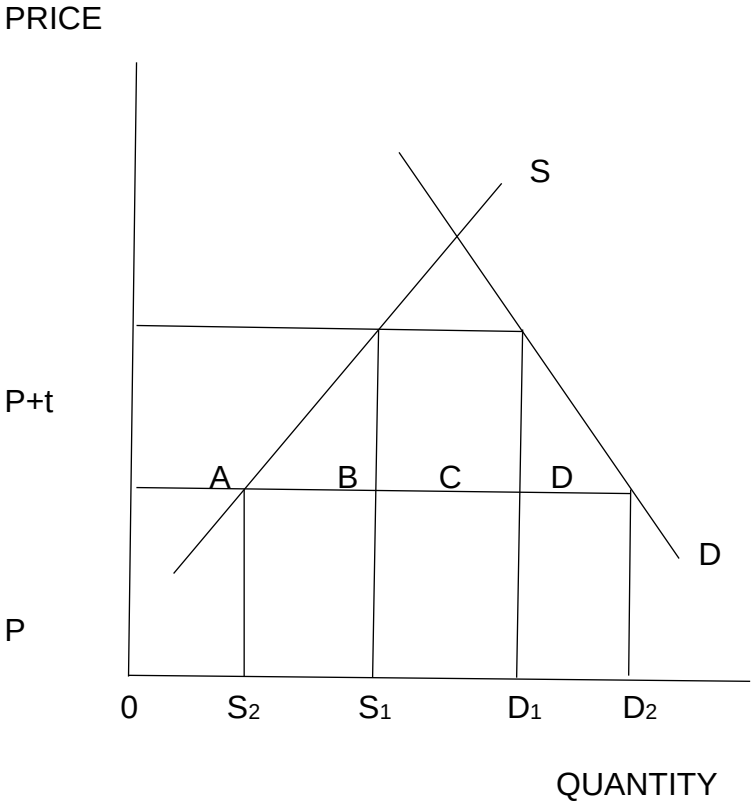
FIGURE 18. TRADE DIVERSION



SOURCE: TEACHING MATERIAL ON REGIONAL TRADE AGREEMENTS UNCTAD/DTL/KTCD/2008/2 UNCTAD VIRTUAL INSTITUTE (2010)

Another concept which (Viner 1950) introduced to economics was trade creation. Accordingly, (Viner 1950) further explained that the term refers to the case when two or more countries enter into a trade agreement and trade shifts from a high cost supplier member country to a low cost supplier country in the union. It can also refer to an instance when trade complements or replaces domestic production. Before the establishment of a preferential/regional trading arrangement, tariffs would be applied to goods entering an importing country from the exporting country. Subsequent to the formation of such an arrangement between the member countries tariffs on intra-regional trade are removed. The welfare effect of a tariff removal is illustrated in Figure 19 below.

FIGURE 19 TRADE CREATION



SOURCE: TEACHING MATERIAL ON REGIONAL TRADE AGREEMENTS UNCTAD/DTL/KTCD/2008/2 UNCTAD VIRTUAL INSTITUTE (2010)

D and S represent the domestic demand and supply curves respectively, p is the world price of the good at which it can be imported. In the first instance the importing country imposes a tariff resulting in a new price of the good represented by p+t. At that price the area OS_1 is produced domestically whilst the imported amount is represented by D_1-S_1. Government revenue from the tariff is equivalent to the height of the tariff multiplied by the quantity imported. This is represented by area "C". When the tariff is removed the domestic price of the good falls to "P" and as a result consumers benefit from lower prices. This is represented by a gain in consumer surplus by the sum of "a+b+c+d." In such a situation producers are now confronted with a more competitive environment and reduced level of production. Their loss of producer surplus is illustrated by area "a". The equivalent area concerning Government's loss of revenue is represented by area "c". Areas "b" and "d" represent the net increased in welfare to the importing nation.

The importance of these concepts is that they facilitate the measurement of the effects of economic integration between trading partners. This effect is usually measured by making reference to the gravity model. In international trade it is utilized to predict the volume of bilateral trade flows between any two countries. The estimation of these bilateral trade flows is based upon variables such as the size of the countries' GDP and the distance between them. Controls used in this model include language, having a common border, countries which have ever been in a colonial relationship and the landlocked nature of countries. They all play crucial roles in determining the levels of trade flows between trading partners as (Vicard 2009) noted. Formally, the preceding specification of the gravity model is estimated in the following manner

$$\text{Ln } T_{ijt=}\beta 0+\beta 1 \text{ Ln } (GDP_{it}GDP_{jt})+ \beta 2 \text{ Ln DIST}_{ij} + \beta 3 \text{ Control}_{ij} + \beta 4 \text{ PoA}_{ijt} + \beta 5 \text{ PA}_{ijt}+ \beta 5\text{FTA}_{ijt}+ \beta 7\text{CU}_{ijt}+ \beta 8 \text{ CM}_{ijt} – \text{Ln } P_{jt} +t_{ijt} \quad (1)$$

The theory is characterized by a partial equilibrium analysis focusing on the welfare effects of nations within an RTA. It also explains the benefits which countries both big and small derive after joining trading blocs. (Snorasson 2012) notes that big countries will gain more from economic integration because of existing scale economies which are exploitable in a larger market. On the other

hand (Marcy 1960) showed that small nations are drawn to integrate with larger markets to overcome smallness of domestic markets, trade barriers and production subsidies in larger markets. By integrating into a larger group, small countries have access to a larger market with full mobility of goods and services and even labour and capital. However, the theory did not take account of trade costs and the consumption effect. They would be analysed by James Meade and Richard Lipsey respectively.

Viner's theory was extended by (Meade 1955) who examined how trade costs had an impact on welfare within a customs union setting. (Snorasson 2012:15) recognized how important the contribution of (Meade 1955) was to the theory stating "trade costs became a major factor in the welfare analysis of the effect of trade blocs on world welfare only after Meade's influential general equilibrium analysis. Meade points out the relative magnitudes of trade creation and trade diversion are insufficient to determine the welfare effect of a bloc on world welfare because the benefits of preferential liberalization depend not only upon the extent of trade creation but also on trade costs. Similarly, losses are determined not just by the amount of trade diversion but also the magnitude of the increase in costs due to trade diversion."

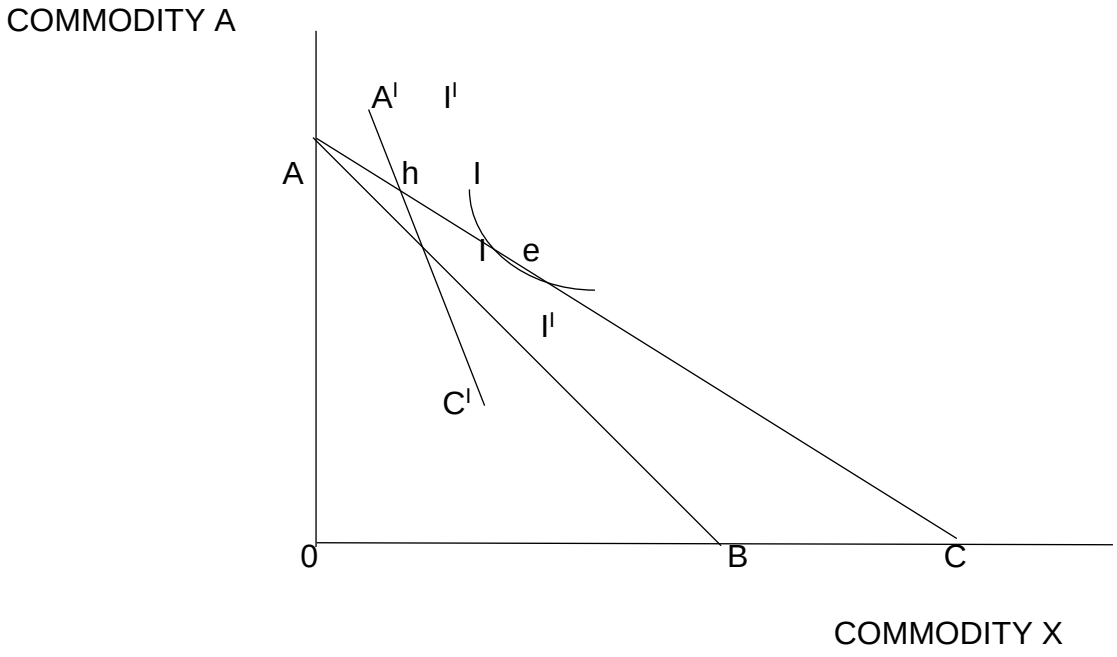
(Meade 1955) also developed Viner's model in terms of contributing to the debate on trade diversion. Unlike (Viner 1950) who viewed trade diversion only as a negative effect of customs union formation Meade was of the opinion it could have positive effects. Accordingly (Hosny (2013: 136) quoted Hay (1957) and opined "Meade argued Viner's analysis is only true under conditions of inelastic demand and completely elastic supply. So if demand was allowed to be more elastic … a customs union may actually increase the volume of trade even though there is trade diversion. This effect was named trade expansion…"

In his contribution to the development of the Vinerian theory (Lipsey 1960) focused his analysis on the consumption effects. This important element was missing from the theory which lacked any analysis concerning inter commodity substitution in consumption following price changes resulting from the customs union formation. According to (Lipsey 1960) Viner 1950 assumed that commodities are consumed in fixed proportions independent of prices. As

substitution of commodities is ruled out, only trade flows between countries remains to be analyzed.

Unlike (Viner 1950) who ignored substitution effects and viewed trade diversion negatively (Lipsey 1960) was able to show their importance regarding consumption of intra customs union trade and demonstrate that trade diversion could lead to positive results. This is done by dropping the assumption that commodities are consumed in fixed proportions. Using a diagram as developed by (Gehrels 1956-57), (Lipsey 1960) was able to demonstrate his thoughts clearly (See Figure 20).

FIGURE 20. THE IMPORTANCE OF SUBSTITUTION EFFECTS



SOURCE: LIPSEY (1960)

OA represents country A's total production of Y while AC indicates terms of trade concerning products X and Y existing between countries A and C. The free trade equilibrium point is e and an indifference curve is tangent to AC. In this case the imposition of a tariff on imports of X even if it does not shift the source of country A's imports will cause a reduction in imports of X and an increase in the consumption of the domestic commodity Y. A tariff changing the relative price in A's domestic market is indicated by A^{I} C^{I} moving A's equilibrium to h. An

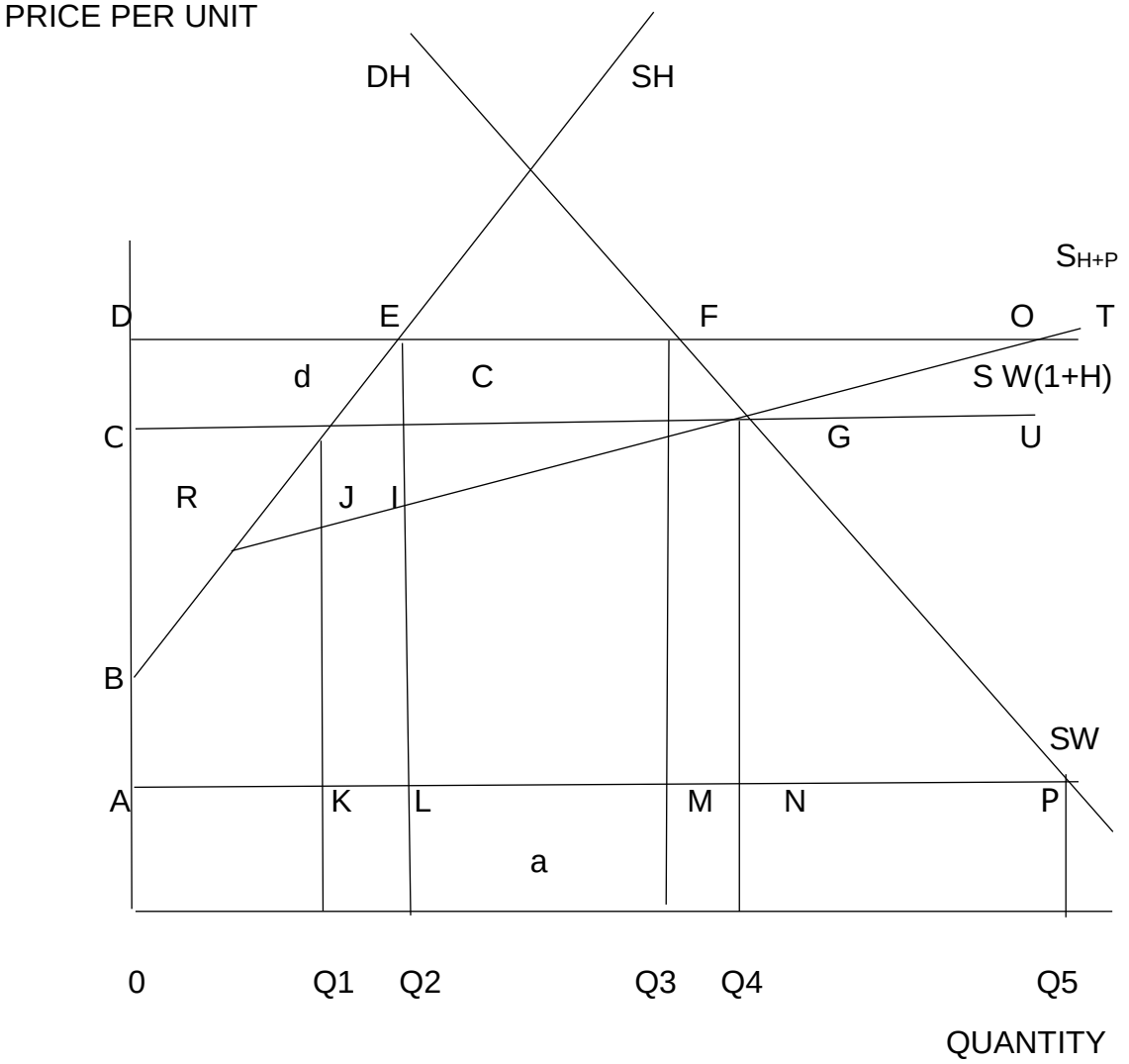
indifference curve cuts AC at that point with a slope equal to the line $A^{/}$ $C^{/}$ illustrating consumers' adjustment of purchases to the market rate of transformation and the tariff effectively reduces imports of X and increases consumption of domestically produced Y.

Since its development in 1950 regional trade theory has passed through two phases until the 1960's according to (Reardon et al 2002). The above paragraphs indicate that the first phase focused on the production effects of customs union and consumption. However, according to (Kraus 1972) the second phase of customs union development from the 1960's onwards is concerned more with the rationale behind their formation. Krauss (1972: 43) opined "the question of the 'economic rationality' of customs thus has been the theoretical issues of the past decade….."

Regional trade theory was also developed by (Cooper and Massell 1965) in their expositions which questioned the rationale for the formation of customs unions by countries. (Cooper and Massell 1965: 462) noted that it could be because of non-economic motives opining "Protection is justified or rationalized on many grounds, political as well as economic." Their analysis sought to demonstrate that unilateral tariff reduction is a superior policy to customs union tariff reduction. (Arguello 2002: 24) concurred with (Cooper and Massell 1965) stating "In classical CU theory, participation in a trade creating customs union is considered a step towards free trade…Under this assumption economic analysis shows that CUs are inferior to unilateral (or non-preferential) tariff elimination in that the latter produces greater levels of trade creation while avoiding completely trade diversion effects."

Additionally, Cooper and Massell noted the welfare effect of a customs union could be split into two components (1) a non-preferential tariff reduction and (2) introducing the customs union starting from the new price. (See Figure 21) If the tariff should be reduced from OD to OC where the customs union is introduced this results in trade creation while trade diversion is eliminated. This is because the new supply curve facing the home country is BJGU which ensures imports originate from the rest of the world at a cost of *a*.

FIGURE 21. TRADE CREATION –TRADE DIVERSION COOPER MASSELL THEORY



SOURCE: EL – AGRAA (2007)

(Johnson 1965) also wrote on the rationale of forming customs unions, developing a theory which relied on Downs' economic theory of democracy, Becker's theory of discrimination and Breton's economic theory of nationalism. It sought to explain the rationale behind protectionism and was premised on several assumptions-:

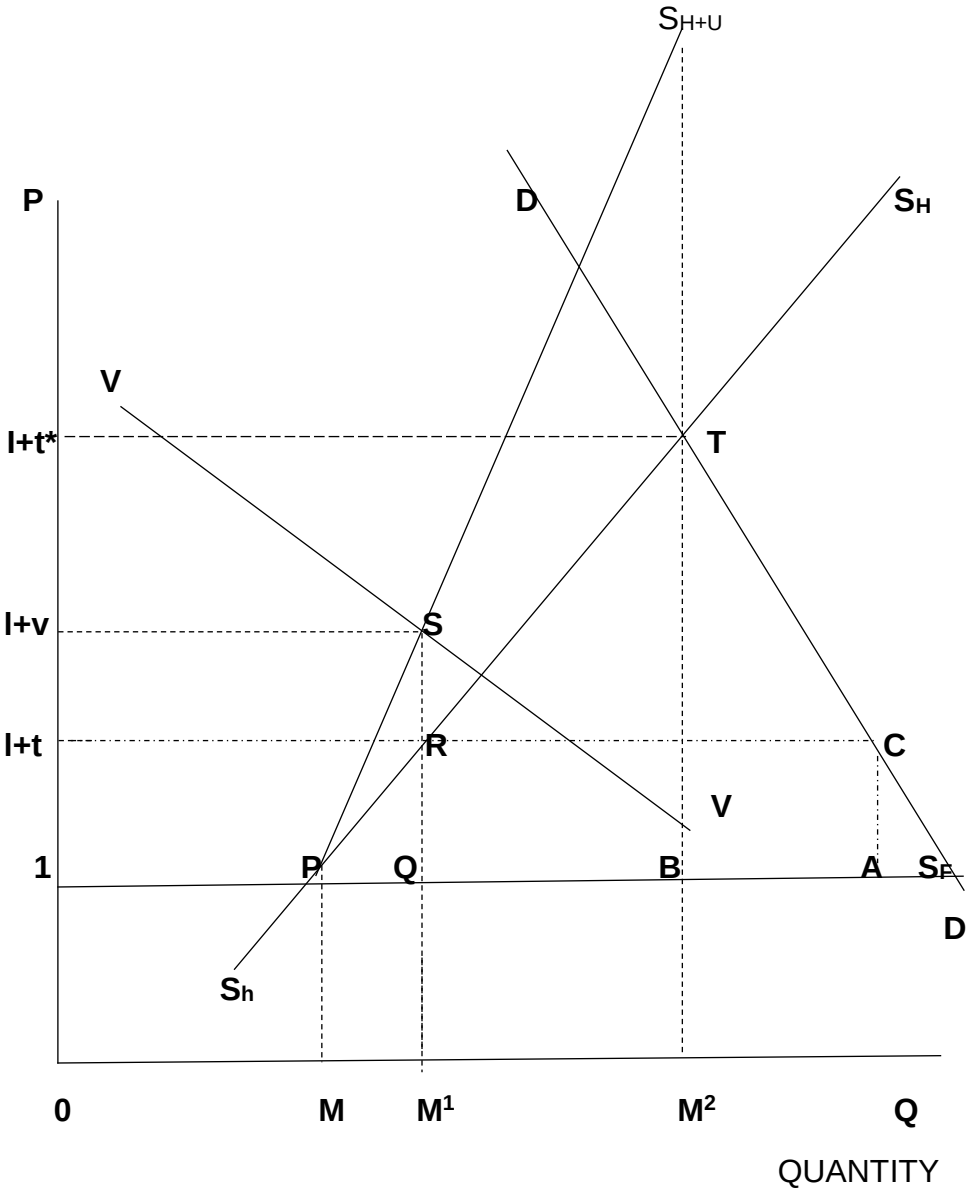
- Governments use tariffs to achieve non-economic objectives;
- Governmental actions are aimed at off-setting differences between private and social costs.

- Government policy is a rational response to the demands of the electorate.
- Customs unions are more likely to be negotiated among countries preferring industrial production, which are at a similar stage of economic development.

This theory is illustrated below in Figure 22.

S_w is the world supply curve at market prices: D_H is the constant-utility demand curve (at free private utility level) S_H is the domestic supply curve; S_{H+U} is the marginal private cost curve of protected industrial production, including the excess private consumption cost (FE is the first component of marginal excess cost determined by the excess marginal cost of domestic production in relation to the free trade situation due to the tariff imposition AB and area GED=IHJ is the second component which is the loss in consumer surplus due to the tariff imposition); the height of v v above S_W represents the marginal value of industrial production in collective consumption and v v represents the preference for industrial production which is assumed to yield a diminishing marginal rate of satisfaction. The maximization of real income is achieved at the intersection of v v with S_{H+U} requiring the use of tariff rate AB/OA to increase industrial production from Oq_1 to Oq_2 and involving the marginal degree of preference for industrial production v. The higher the value of v, the higher the tariff rate and the degree of protection will tend to vary inversely with the ability to compete with foreign industrial producers.

FIGURE 22. MARGINAL 'DEGREE OF PREFERENCE FOR INDUSTRIAL PRODUCTION



SOURCE EL AGRAA (2007)

REPRODUCED WITH THE PERMISSION OF THE COPYRIGHT HOLDER

Other trade economists who offered their views on regional trade theory included (Kemp and Wan 1976) who developed a theorem in their paper on the formation of a customs union. It illustrated that a welfare improving customs union could be constructed among any subset of countries while the non-members' welfare remained unchanged. Additionally, (Brechner and Bhagwati 1981) made their thoughts known on regional trade theory by analyzing how the effect of changes in the external tariff affected the welfare of individual countries. Regional trade

theory was also developed through a contribution from (Baldwin 1994) who developed a domino theory of regionalism. According to (Baldwin 1994:14) "…the current wave of regionalism stems from two idiosyncratic events – one in the New World and one in the Old – that have been multiplied many times over by a domino effect." They were the US-Mexico FTA and the Single Market in Europe. Finally, (Bhagwati and Panagariya 1996) note a growing interest in the theory of political economy and a desire to analyze why PTAs are growing in popularity, PTA theory has shifted focus on to modelling incentives to form PTA's. The work of (Grossman and Helpmann 1995) and (Krishna 1995) has indicated how trade diversion acts as a primary motive behind the formation of PTAs.

The preceding section reviewed the development of regional trade theory since its origins in 1950. It illustrated that the theory focused solely on trade in goods and its associated static effects. Such trade was driven primarily by the tenets advanced in the classical and neo classical trade theories. The rationale for undertaking this review exercise is based on the fact that the study is concerned with trade between two regional trade arrangements, the EU and the OECS. They are but just two out of several regional trade arrangements which currently characterise the global economic landscape. Another purpose is to understand how regional trade theory has developed over the years from focusing only on static effects to being concerned with trade costs, consumption effects and the reason for forming customs unions. Later it will be shown that changes in the practice of economic integration are now driving changes in regional trade theory. This is because regional trade agreements no longer focus solely on trade in goods. They also incorporate wide ranging behind the border issues and trade in services which is a central element of deep regional trade agreements. The inclusion of trade in services is linked directly to New New Trade Theory as will be seen later.

3.4 NEW TRADE THEORY

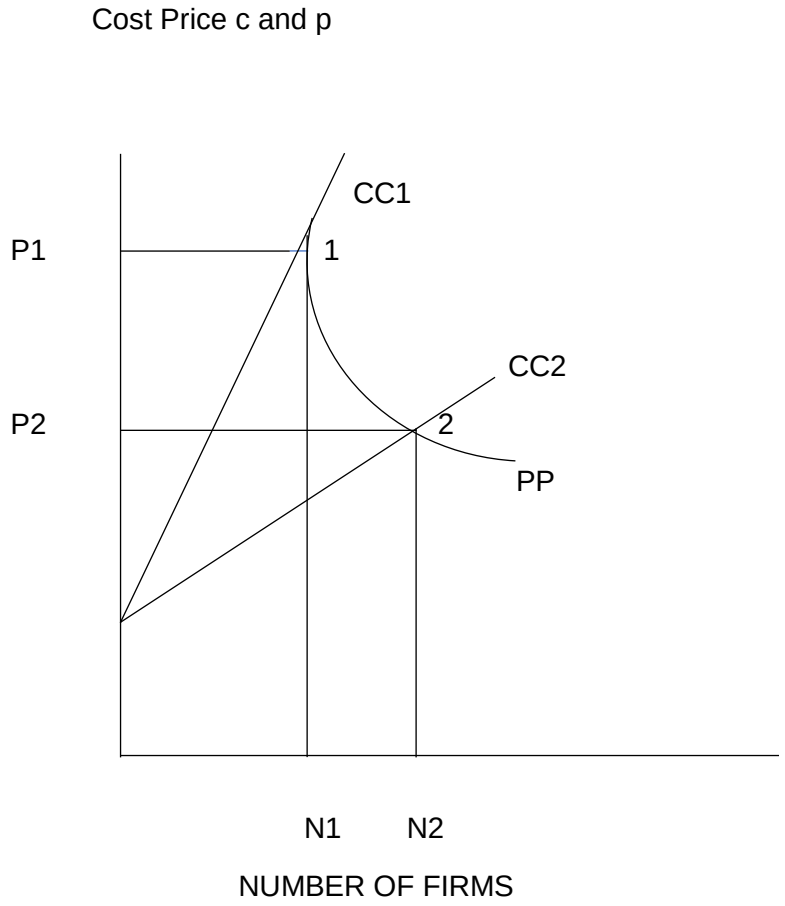
The above explanation concerning the development of regional trade theory illustrated that static effects were given substantial attention by academics during 'old regionalism'. This is because the analysis of that period mainly focused on

preferential tariff reduction set within the Heckscher-Ohlin-Samuelson framework and emphasized gains from the reallocation of resources according to (Wei 2011).

However, by the late 1970's/early1980's the global economy had changed as it then came to be characterized by intra industry trade and trade between similar countries. These features were first identified by (Grubel and Lloyd 1975) in their work. This led to the development of several new trade models by (Krugman 1980), (Helpman 1981) and (Ethier 1982)**.** These models came to be known as new trade theory which was based on a monopolistic competition model that sought to explain why the aforementioned features developed.

(Matthews 2003) noted that new assumptions such as imperfect competition, economies of scale and product differentiation informed the development of new trade theory. These assumptions served as new analytical viewpoints regarding economic integration and emphasized the pro-competitive effects of larger markets**.** (Krugman 1980) noted that trade between similar countries occurred because of product differentiation and increasing returns to scale. The latter (increasing returns to scale) enabled firms to produce larger quantities due to scale effects and capture larger markets. It also allowed consumers access to greater product varieties which (Bernard et al 2007) opined was responsible for welfare gains under new trade theory. Figure 23 below illustrates the effects of a larger market.

FIGURE 23. THE EFFECTS OF A LARGER MARKET



SOURCE: KRUGMAN, OBSTFELD AND MELITZ (2013)

REPRODUCED WITH THE PERMISSION OF THE COPYRIGHT HOLDER

An increase in the size of the market allows each firm to produce more and thus have lower average costs. This is represented by a downward shift from CC_1 to CC_2. The result is a simultaneous increase in the number of firms operating and in the variety of goods available and a fall in price of each.

Such participation by firms in a larger market occurred either through exporting or foreign direct investment which was only possible for the more productive firms within a given industry as entry into markets is a costly venture. Uncertainty confronts potential entrants concerning their productivity and after firms each pay

a fixed entry cost which soon becomes sunk productivity is acquired from a fixed distribution. However, all firms share the same fixed cost but maintain different productivity levels. This means that firms whose productivity level is below a lower threshold (the zero-profit productivity cut-off) incur losses and eventually exit the industry. The difference between firms' productivity levels is directly influenced by their technological production capabilities. This trade related productivity stems mainly from the composition of firms within an industry when weaker firms exit and production is reallocated to more efficient firms.

3.5 NEW REGIONALISM

Beginning in the 1990's an era referred to as 'new regionalism' was ushered in. During that period, there was a rapid growth in the number of regional trade agreements. According to (Baier et al 2007:10) "Of the 250 agreements notified to the General Agreement on Tariffs and Trade (GATT) and WTO between 1947-2002, about half were notified since 1995. Thus, there has been a virtual explosion in the number of economic integration agreements in the past decade. This is the New Regionalism."

According to (Ethier 1998) six of its features were as follows

I. One or more small countries linking up with a large country;

II. Typically the small countries have recently made, or are making significant unilateral reforms;

III. The movement to free trade is not dramatic;

IV. The liberalisation is primarily undertaken by the small countries not by the large countries: Thus the agreements are one-sided;

V. Regional trade arrangements are regional geographically and

VI. Regional trade agreements are often deep integration schemes. Apart from the elimination of trade barriers, partner countries engage in the harmonisation or adjustment of diverse types of other economic policies.

Sentiments identical to those expressed in point 6 above concerning regional trade agreements of the 'new regionalism' era were also outlined in the (UNCTAD Trade and Development Report 2007: 54) which stated, "Moreover, traditionally, RTAs involved only reducing or eliminating barriers to trade, but since the beginning of the 1990's such agreements also involve what has come to be called "deep integration", which includes additional elements of harmonizing policies in line with a reform agenda that favours greater freedom for market forces…..many of these agreements make the reduction of trade barriers conditional on partners agreeing to liberalize such additional areas as their FDI regime, government procurement, trade in services and competition policy."

Prior to this change in focus, RTAs were considered as being 'shallow' in nature. Their change has also been recognised by (Gomez-Mera and Barrett 2012: 182) who stated "…..the new PTAs also have a broader scope covering some of the so called new issues that go beyond trade in goods and services. Indeed a large proportion of these agreements are WTO Plus." This means they go beyond what has been put forward for negotiation at the multilateral level. Consequently, a debate has emerged concerning the compatibility, coherence and conflict of multilateralism and regionalism concerning trade relations as has been outlined in the 2011 World Trade Report.

In view of the foregoing concerning 'new regionalism' it is imperative to ascertain what precipitated the emergence of this era. New regionalism came to the fore due to significant changes in the global economic order. In 1986, trade in services was introduced to the global trade agenda during the Uruguay Round of trade negotiations. This would permanently alter the future of international trade negotiations as some regional trade agreements include trade in services. By the 1990s the Washington Consensus featured prominently in the global economic agenda with two of its components including the liberalization of trade and investment as (Bianculli 2006: 2) noted. Three years later in 1992 the European Union was established and the identical issues were being promoted by this trading bloc via its trade policy using preferential trade agreements. Another three years on in 1995, the world of international trade was forever changed with the founding of the WTO which would oversee all aspects of international trade. It replaced the General Agreement on Tariffs and Trade (GATT) and also brought

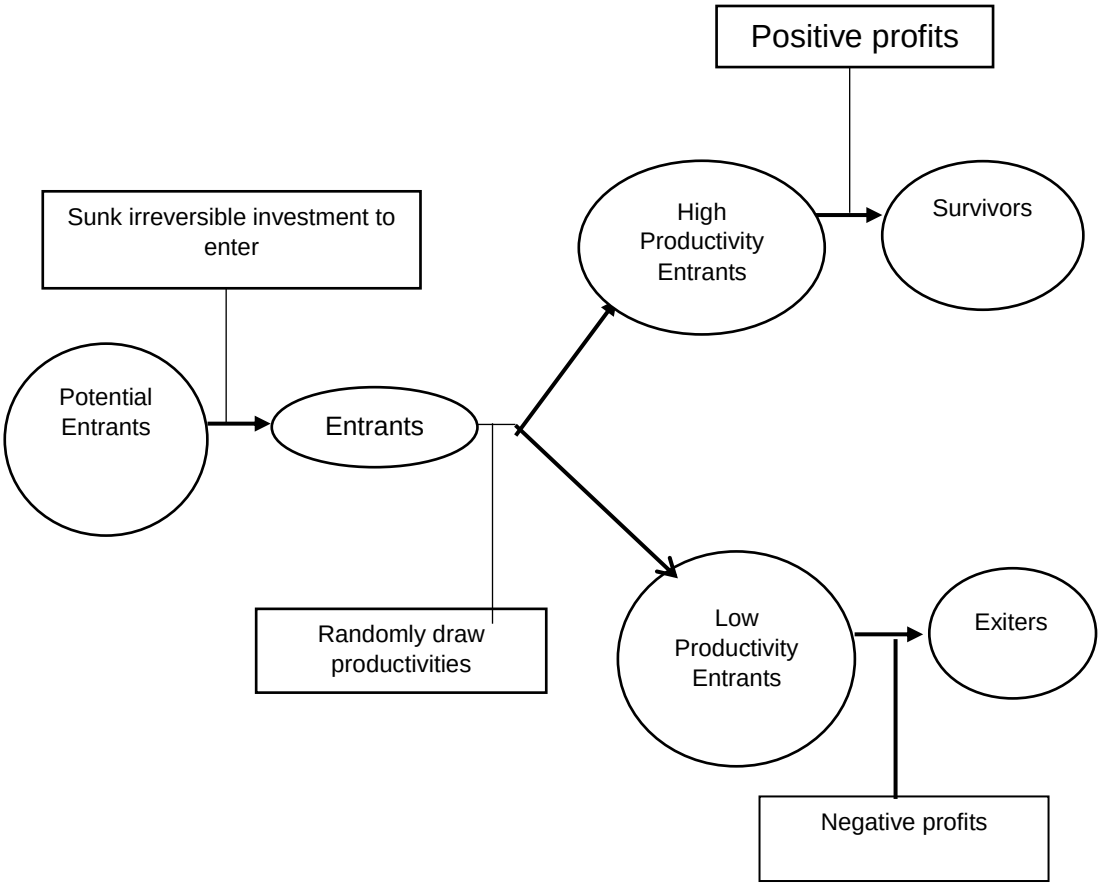
the General Agreement on Trade in Services (GATS) within the sphere of the multilateral trading system.

3.6 NEW NEW TRADE THEORY

The combination of the aforementioned international events during 'New Regionalism' culminated in trade in services being included within newly negotiated regional trade agreements. Consequently, there was an expansion of trade in services. According to (Breinlich and Criscuolo 2010: 2) "trade in services has been the fastest growing component of international trade since the early 1990s, with average annual growth rates of close to 10% and total export volume of $US 2 800 billion in 2006." This growth was fuelled primarily because of an expansion in firm level activity which would be explained by a new trade model conceptualised by (Marc Melitz 2003). It is somewhat similar to that developed by (Krugman 1980) on which new trade theory is premised. This is because it also featured product differentiation, monopolistic competition and increasing returns. However, the difference is that whereas the unit of analysis for New Trade Theory was the industry with New New Trade Theory it had shifted to the firm. As (Greenaway and Kneller 2007: 135) opined "We have moved from the new trade theory world of the representative firms where all firms export, to one in which firms are heterogeneous and some export and some do not."

By focusing on the operations of firms (Melitz 2003) was able to illustrate that firms are different within industries. Firm level heterogeneity determines whether and how firms decide to participate in international markets. Uncertainty which is a hallmark of international market entry faces newcomers as entry costs become sunk costs. All firms share the same fixed cost but maintain different productivity levels and firms whose productivity level is below a lower threshold (the zero-profit productivity cut-off) incur losses and eventually exit the industry. The difference between firms' productivity levels is directly influenced by their technological production capabilities. This entire sequence of events is depicted in figure 24.

FIGURE 24. PRODUCTIVITY, UNCERTAINTY AND FIRM ENTRY/EXIT



SOURCE: GREENAWAY AND KNELLER (2007)

REPRODUCED WITH THE PERMISSION OF THE COPYRIGHT HOLDER.

According to (Ciuriak 2011) the literature on new trade theory agrees that it is characterized by the following features.

I. Participation in international markets is rare among firms and export and import intensity among firms that do participate in international markets is low. Also, relatively few firms in an industry export and/or use imported inputs. Exporters export only a small portion of their production and imported inputs only for a small share of firms' inputs. This was first recognised by (Bernard et al 2007) whose work focused on the US market. Of the 5.5 million firms operating in the United States in 2000 only 4% were

exporters. Among these exporting firms, the top 10% accounted for 96% of total US exports.

II. Firms that participate in international markets are different than those that do not. Exporters, firms which used imported inputs and firms which engage in foreign direct investment tend to be larger, more productive, relatively more capital and skilled labour intensive and pay higher wages than firms which do not participate in international markets. Furthermore, firms which enter export markets grow faster regarding employment and output than non-exporters.

(Bernard et al 2007) demonstrated this clearly with reference to data from 2002 concerning US manufacturing exporters. It was revealed that exporters are significantly larger than non-exporters by 97% for employment and 108% for shipments; they are more productive by approximately 11% for value added per worker and 3% for total factor productivity; they pay higher wages by around 6% and finally they are more capital and skill intensive by approximately 12% and 11% respectively.

III. There is considerable dynamism regarding changes in the size of existing trade flows (“the intensive margin”) and regarding new products being introduced to export markets/the diversification of already exported products to new markets (“the extensive margin”).

IV. Trade liberalization increases productivity due to within industry as opposed to across industry reallocations and

V. Firm process technology choice is linked to the decision to engage export markets.

In view of the preceding analysis regarding New New trade theory the puzzle which remains to be solved concerns the connection between trade theory and trade in services. (Breinlich and Criscuolo 2011) in their research seek to establish that link and provide a set of stylized facts on firms engaging in international trade in services by utilising data obtained from the Annual Respondents Database and the International Trade in Services Inquiry. Using these stylized facts they were able to show that the foregoing characteristics of New New trade theory which (Bernard et al 2007) had previously applied to trade

in goods are also applicable to trade in services. This was achieved by examining the behaviour of firm level exporters and importers of services in the United Kingdom. Thus, (Breinlich and Criscuolo 2011) noted the following facts. First, only 8.1% of UK firms export or import services. Additionally, services exporters and importers co-exist with non-traders in all major sectors of the UK economy. Second, exporters and importers of services are larger than non-traders in terms of employment, turnover and value added. They are also more productive, more capital intensive, pay higher wages and are more likely to be foreign owned or to be a part of a multinational enterprise. Also, firms which export and do not import services are smaller but more productive and skill intensive than firms engaged in services imports but not exports. Third, firm level heterogeneity exists across active services traders in total value of exports and imports, number of countries with, number of services traded and mean exports and imports per country and type of service. Additionally, services exports and imports are highly concentrated among few firms that trade with many countries and in many services types. Services trade is concentrated within firms with the top destination country and top service type accounting for at least 70% of the average firms' overall trade. Differences in exports and imports across firms are explained mainly by variations in the intensive margin. More productive and larger firms trade with more countries and in more types of services, and export and import more per country and service type. The intensive margin (trade per country and service type) explains most of the correlation between firm productivity and size on the one hand and firm level trade flows on the other hand.

This section of the chapter examined the main tenets of New New Trade theory as developed by (Marc Melitz 2003) which focused on firm level heterogeneity. There are two important aspects of this section. First, it established the link between the liberalization of trade in services and trade theory in particular New New Trade Theory. Second, it highlighted the nexus between growth in firm level activity and a liberalized trading environment evidenced by (Panagariya 2013:6) who opined "trade outcomes have mirrored this liberalization with goods as well as services trade expanding at accelerated pace. The simple average of annual growth rates of world merchandise exports rose from 5.6 percent during 1981-1994 to 8.9 percent during 1995-2010……merchandise exports showed

remarkable growth in the three major regions of the world: Europe, North America and Asia. In Europe they more than doubled and in Asia they almost tripled during the decade. Growth in North America was slower but still impressive with exports rising from$1225 billion in 2000 to $1965 billion in 2010." Regarding services specifically, (Panagariya 2013: 6) stated "Growth in the exports of commercial services was similarly spectacular. In North America they almost doubled, in Europe they more than doubled and in Asia they tripled between 2000 and 2010….." This is in line with what is stated in traditional trade theory that gains from trade can be expected in a liberalized trade environment. However, since traditional trade theory did not explain patterns of trade this resulted in the development of new trade theory by Krugman in 1980.

Given the fact that New New Trade Theory specifically speaks to the operations of firms which export services it may be useful for informing future studies focusing on Caribbean firms which export tourism services.

3.7 CONCLUSION

This chapter has reviewed the classical and neo classical international trade theories, regional trade theory and the new trade theories. The rationale for this exercise was to ascertain which theory is best suited for informing the proposed study which focuses on the liberalization of trade in tourism services. The analysis indicated that the classical and neo-classical trade theories focused on trade in goods which was influenced by efficiency, factor endowments and technological innovation where the unit of analysis was the country. Meanwhile New Trade theory sought to explain high levels of intra industry trade and global trade between similar countries where the unit of analysis was the industry. Subsequently, with the development of New New Trade theory the unit of analysis was the heterogeneous firm which engaged in exporting services. Thus, the link between trade theory and trade in services was established

Furthermore, it was illustrated that regional trade theory has evolved from focusing on purely on static effects to behind the border issues such as competition law and policy, sanitary and phyto-sanitary issues, intellectual property and services.

Additionally, there has been a parallel discussion in the chapter regarding trade in goods and trade services which illustrates that the Comparative advantage, Heckscher-Ohlin and Product Life Cycle trade theories can all be applied to explain the phenomenon trade in services.

In the final analysis research undertaken by (Breinlich and Criscuolo 2011) illustrated that the set of stylized facts of the New New trade theory developed by (Bernard et al 2007) could be applied to trade in services. The analysis of (Breinlich and Criscuolo 2011) showed that New New trade theory is most suitable for describing the phenomenon trade in services given the fact that it is based on empirical research.

CHAPTER FOUR

THEORIES OF FOREIGN DIRECT INVESTMENT AND TOURISM DEMAND

4.1 INTRODUCTION

This chapter is defined by two distinctive sections which review the theories pertaining to foreign direct investment and tourism demand given the nature of the research questions which were outlined in chapter one.

Regarding foreign direct investment, the chapter first outlines a series of seminal events which were observed by academics leading to the conceptualisation of theories regarding foreign direct investment. Second, it sheds light on the types of foreign direct investment which are currently acknowledged in the literature. Third, it recognises that such theories are capable of being classified.

During the post war period of the 1950's and 1960's there was a surge in the flow of foreign direct investment from the United States of America to European countries and with it, there was a growth in the importance of multinational corporations (MNCs) also known as Multinational Enterprises (MNEs). The combination of these events inspired academics to start investigating what determinants were responsible for the emergence of these commercial entities on the global economic landscape as (Nayak and Choudhury 2014: 2) argued. This has resulted in the development of several theories of foreign direct investment to explain why such entities engage in cross border commercial activities resulting in foreign direct investment.

Equally important for consideration is the fact that there are several types of foreign direct investment. Four types have distinguished by (Bezuidenhout and Grater 2016) namely resource-seeking FDI, market seeking FDI, efficiency seeking FDI and strategic asset seeking FDI. Resource seeking FDI is that invested overseas to obtain resources at a cheaper rate than in the home country and which are also of a higher standard. Market seeking FDI is that undertaken by MNCs with the sole purpose of providing a good or service to that market. It has been noted that such markets would have been previously served by exports. In these circumstances MNEs may be availing themselves of opportunities which

have arisen following the removal of trade barriers. Efficiency seeking FDI is used by firms wishing to improve their output through cost reductions and economies of scale. Also, these commercial entities look to exploit factor endowments, cultures, institutional arrangements, demand patterns and market structures. Strategic asset seeking FDI is that which MNEs use in the pursuit of their long-term strategic aims to enhance their competitiveness internationally.

What has also been recognised is that these theories can be classified several ways. First, they may be classified into microeconomic and macroeconomic theories. Second, (Agarwal 1980) conceptualised the system of classifying theories under theories assuming perfect markets, theories assuming imperfect markets, other theories and theories based on other variables**.**

The second half of the chapter is concerned with economic theories which can best describe the phenomenon tourism demand. First, it provides a historical review of international tourist arrival patterns in the post war period. Second, it describes how tourism is practiced from the perspective of the tourist who is the consumer. Third, a definition of tourism demand is outlined illustrating what drives it. Fourth, the section acknowledges the various theoretical approaches to tourism demand which have been conceptualised by academics over the years. Fifth, the section then outlines which set of theories shall be the focus of the study and explains why.

4.2 MICROECONOMIC THEORIES OF FDI

The microeconomic theories of foreign direct investment are concerned with several issues relating to investors as (Lipsey 2001) contended. Therefore, these theories are viewed from the perspective of the firm level and the industry level during the decision-making process of whether or not a company should engage in foreign direct investment. First, they seek to explain the motivations which inspire investors to establish operations overseas instead of exporting or licensing their products. Second, they seek to explain how investors choose their locations. Third, they explore the reasoning behind the decision of investors to invest where they do. Fourth, they are concerned with the theories of the firm and

industrial organization. Fifth, they may also be categorized under several hypotheses including industrial organization, internalization and location.

Ultimately these theories concentrate on the consequences to the investors, the home and host countries, of the operations of the multinationals or of their affiliates that were established because of the investments. They are not concerned with the size of the flows or the value of the investment stocks.

4.2.1 The Portfolio Theory

In his seminal publication *Portfolio Selection,* (Markowitz 1952) developed the Portfolio Theory regarding investment which encapsulated the effects of diversification when risks are correlated, distinguished between efficient and inefficient portfolios and analysed risk return trade-offs.

The theory was principally concerned with future performances of securities and the choice of portfolio. Thus, (Markowitz 1952) argued that an investor's portfolio selection could be premised on two criteria: (1) the expected return of the portfolio and (2) the risk or variance of the portfolio as the assumption is made that the element of risk neutrality is relaxed.

How does the theory apply to the multinational enterprise engaging in foreign direct investment? Hufbauer (1975: 265) explained the link by opining "foreign investments need not yield the highest possible return nor the lowest possible variance, but their combination of return and variance (and covariance with other investment projects) may entitle them a place in the portfolio." This hypothesis like all others is characterised by advantages and disadvantages. According to (Moosa 2002) one advantage is that it can be generalised. Previously, (Agarwal 1980) cited (Prachowny 1972) whose work uncovered empirical evidence that the hypothesis could explain foreign direct investment in the United States and American direct investment abroad. Another is that it can explain cross-investment between countries and industries as (Moosa 2002) has noted. (Hufbauer 1975) cited (Learner and Stearn 1970) and said that a disadvantage of the hypothesis is that it relied on the application of portfolio-diversification models to explain the existence of the multinational enterprise. Rather the

multinational enterprise should be justified given the lumpiness of projects, market control and technological leadership.

4.2.2 The Theory of Firm Specific Advantages

This theory developed out of ideas advanced in the 1960 doctoral thesis of Stephen Hymer entitled *'The International Operations of National Firms: A Study of Foreign Direct Investment'* published in 1976.

(Hymer 1976) was interested in determining what circumstances caused firms to control an enterprise in a foreign country. The author outlined two major reasons. One related to the fact that it is sometimes profitable to control enterprises in multiple countries thereby eliminating competition between them. The other concerned specific advantages that some firms may possess in a particular activity which can be exploited profitably through opening a foreign operation. These ownership advantages were concerned with product differentiation, managerial expertise, new technology or patents, internal or external economies of scale. These advantages were deemed to be so valuable that they offset the costs associated with entering a foreign market. These disadvantages which national or local firms did not face concerned differences in a number of areas including culture, legal systems, language and other inter-country differences.

(Kindleberger 1969) shared similar views concerning foreign direct investment which were outlined by (Hymer 1976). The author believed that a firm undertaking direct investment in a foreign country was a corollary of that firm possessing some advantages over present or future competitors in the said host country. It was also made clear that these firm specific advantages must be transferable from the home country to the host country which cannot be acquired by the local firms. Included among these advantages are technology, management, labour skills, components and other material input. Their usefulness was then linked to the structure of markets and it was recognised that they could be only be exploited in circumstances where there was some market imperfection. This was pointed out by (Kindleberger 1969) who succinctly opined that perfect competition and direct investment were mutually exclusive. The author was of the view that monopolistic advantages were more influential in producing foreign direct investment. They

related to product differentiation, special marketing skills, retail price maintenance, administered pricing, the existence of patented or unavailable technology, internal and external economies of scale and government limitations on output or entry.

The theory of firm specific advantages is characterised by disadvantages and advantages alike. One of the disadvantages is its failure to outline why firms do not use their advantages to produce domestically and export abroad which is a substitute to foreign investment. Another disadvantage is the failure of the hypothesis to elucidate why a firm chooses one country over another for investment purposes. The primary advantage of the theory is its ability to clearly show how firm specific advantages enable firms to successfully enter and compete in foreign markets.

4.2.3 The Theory of Oligopolistic Reaction

The theory of oligopolistic reaction was developed by (Knickerbocker 1973) as part of his doctoral study on the investment patterns of 187 large American multinational enterprises in 23 countries between 1948 and 1967. Using data from the aforementioned multinational firms (Knickerbocker 1973) calculated an Entry Concentration Index which is the number of new investments within a given time period as a percentage of those over the total 25 year period.

The research undertaken by (Knickerbocker 1973) revealed several important pieces of information. Firstly, oligopolistic reaction increases with the level of concentration. As (knickerbocker 1973) stated the strategy of defensive investment is pursued by firms more actively in industries of high seller concentration. Secondly, the entry concentration index was negatively correlated with diversity. Thus, the reaction of firms was less intense if they had the capacity to exploit foreign markets in a variety of ways. Thirdly, firms exhibited oligopolistic investment behaviour matching rivals' investment moves as a way of maintaining their market share or position in each foreign country. Fourth, there is a negative correlation in industries with the very highest concentration.

4.2.4 The Theory of Internalization

The idea concerning the internalisation of a market within a firm was first addressed in the academic literature by (Coase 1937) in his seminal article the Nature of the Firm. There, (Coase 1937: 388) explained the concept of internalisation whilst referring to the nexus between price movement and production opining “Outside the firm, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-coordinator.” Thus, it was recognised that the former (price movement) has a significant influence on the latter (production) which is facilitated via arrangements in the market. Subsequent to internalisation such arrangements in the market are eliminated being substituted by the entrepreneur-coordinator responsible for the direction of coordination. These ideas of (Coase 1937) specifically referred to firm internalisation in a national context. On the other hand, firm internalisation in an international context would initially be addressed in the literature by (Hymer 1976). However, it would later be developed fully into the theory of the multinational enterprise by (Buckley and Casson 1976). According to them a multinational enterprise is an enterprise which owns and controls activities in different countries.

(Buckley and Casson 1976) in developing this theory of internalisation noted that it is premised on three pillars.

(1) Firms maximise profits in imperfect markets.

(2) When markets in intermediate products are imperfect, there is an incentive to bypass them by creating internal markets. This involves bringing under common ownership and control the activities which are linked by the market.

(3) Internalisation of markets across national boundaries leads to the emergence of multinational enterprises.

Regarding the actual process of the internalisation of an intermediate product market the theorists recognise that this takes place up to the margin where the

benefits are equal to the costs. Furthermore, (Buckley and Casson 1976) noted that four main groups of factors were directly linked to the decision of a firm to engage in the internalisation process. They are industry specific factors which are concerned with the nature of the product and the structure of the external market. Region specific factors relate to the geographical and social features of the region which are linked by the market. Nation specific factors are those pertaining to the political and fiscal relations between the nations concerned. Finally, there are firm specific factors which demonstrate the capability of managers within a firm to organise an internal market. Out of these four sets of factors the theory focuses particularly on industry specific factors which suggested reasons for internalising markets in two instances. The first was related to intermediate products in certain multistage production processes. Internalisation of this type is principally concerned with vertically integrated producers. The second type of internalisation is concerned with the integration of production, marketing, research and development.

In further developing their theory (Buckley and Casson 1976) outlined that there were five types of market imperfection which significantly influenced the decision of firms to engage in internalisation. They invariably resulted in several firm level benefits and imperfections arose in the following situations. Firstly, in instances where activities are linked by nature of the market significant time lags may occur at the same time when the futures market which are required to coordinate these activities may be missing. The absence of the latter serve as an impetus for a firm to create their own internal futures markets bringing interdependent activities under its control. Secondly, where it is possible to efficiently exploit market power regarding an intermediate product the imposition of a discriminatory price not feasible in an external market may be required. Should the market be characterised by a monopolist or a monopsonist then they would be motivated to pursue a policy of forward or backward integration. Ultimately this facilitates the implementation of an adequate level of price discrimination in an internal market. Thirdly, another type of market imperfection arises where there is a bilateral concentration of market power exists resulting in a scenario of unstable bargaining. This is costly to the firm involved and can be circumvented through the negotiation of long-term contracts or mergers and or acquisitions. Fourthly,

where there is inequality of knowledge concerning the nature or value of the product between the buyer and the seller a market imperfection is said to exist. Thus, if the seller of an intermediate product is unable to convince a buyer that the price demanded is fair then the seller has an incentive to assume the buyer's risk. This can be effected through acquisition or establishing an identical firm to compete with him. Therefore, (Buckley and Casson 1976) opine that 'buyer uncertainty' can be considered as a cause of market internalisation through forward integration. Fifthly, market imperfections can arise as a result of government interventions via ad valorem tariffs or restrictions on capital movements and from discrepancies between countries in rates of income and profit taxation.

(Buckley and Casson 1976) argued that the aforementioned interventions are dependent upon the valuation of internationally traded intermediate goods. Additionally, they noted that as far as external markets are concerned prices are usually published thereby eliminating any problems regarding being misquoted when the firm reports its liability for tax. On the other hand, in internal markets no such publicity exists. Moreover, imputed prices of intermediate goods are constrained only by the need for consistency in matters pertaining to accounting and taxation.

In light of the aforementioned cases of market imperfections which are said to influence internalisation (Buckley and Casson 1976) firmly believed that the strongest of these is concerned with the market for various types of knowledge. Several examples concerning knowledge's influence on the process of internalisation are given. They noted that the generation of knowledge through research and development, which is subsequently incorporated into new processes or products is a time-consuming endeavour. Thus, if futures markets are non-existent then flawless planning can be achieved through internalisation. Also, it has been stated that knowledge is a natural monopoly which is exploited through discriminatory pricing. However, licensing systems cannot be designed to accommodate discriminatory criteria. Hence internalisation is viewed as a viable option. It has also been recognised that where a bilateral concentration of power exists regarding the purchase and sale of knowledge. Bargaining conflicts can arise which may only be overcome through some form of joint ownership.

Additionally, buyer uncertainty results when unpatentable or unregisterable knowledge is being marketed. Once the element of uncertainty remains intact and the buyer is willing to pay less than the seller can afford to give then there is a strong incentive for internalisation to take place. This will happen when the seller assumes the buyers risk by internalising the knowledge and integrating forward into the buyer's industry.

4.2.5 The Product Life Cycle Theory

The product life cycle theory was developed by (Vernon 1966) as a response of the failure of the Heckscher Ohlin theory of international trade to explain the phenomenon of overseas/international production by American companies in post war Europe. The theory focused on the life cycle stage of a product and in doing so it ultimately illustrates the link to foreign direct investment. According to (O'Brien 2014) the initial or development stage of production is located in close proximity to markets. The mature stage of production is characterised by a higher level of capital intensity. The final stage of production is when the product becomes standardised and becomes easy to imitate and reproduce resulting in increased competition. The theory states that the firm is able to relocate abroad due to firm specific advantages and resource differentials regarding labour especially between its home country and the host country. Additionally, the role of foreign governments in influencing the attractiveness of their countries as destinations of foreign direct investment is acknowledged.

4.2.6 The Appropriability Theory

The appropriability theory was developed by (Magee 1977) and is a combination of the theory of creation and appropriability and the industrial organization approach. It addressed the issue of how multinational corporations could protect returns from innovations which were described as sophisticated technology. (Magee 1977) opined that the most pressing issue confronting innovating multinationals is the possible loss of the technology to copiers and rivals. These innovations were viewed as public goods ripe for exploitation by anyone capable

of understanding how to use them but unchecked utilisation reduced the profitability for innovators. Furthermore, it was posited the more onerous it was to protect the profitability of an invention the greater the appropriability problem.

On application to the multinational corporation, the appropriability theory suggests that it is more economical to transmit technology within firms than through the open market. Here, the link to the internalization theory is established. This reduced the chances of it being replicated or stolen than if it was under the control of a single firm. The theory also explains that multinational corporations produced sophisticated technologies since private returns are higher than for simpler technologies. Also, the skilled labour employed by multinationals is a corollary of the skilled labour-intensity of the production process for both the creation and the appropriability of the returns from the technology. Moreover, the abundance of skilled labour in developed countries meant that they have a comparative advantage in producing new technologies which enabled them to capture private returns on new technologies.

A central feature of the theory is that it acknowledges that multinationals must make investments which create 5 types of information for product:

1. creation;
2. development;
3. production functions;
4. markets and
5. appropriability.

These investments in new information will be significant early in a product's creation and will decrease as the product ages. It is also clear that the theory has implications for the size of firms. First appropriability itself causes firms that develop new products to grow in size because of internalizing the externality which new information creates. Second, the optimum firm size is bigger for domestic retailers of non-brand name experience goods. Third, sales of high-end technology products are usually accompanied by sales of service information. Fourth, the quantity of products produced by firms creating information is

substantial given economies of scale with each of the four types of information. Fifth, with new and differentiated products the spread between buyer and seller valuation of new information is higher than when the products are older and more standardized. Therefore, market transaction costs are higher earlier in a product's life cycle. This has an impact on optimum firm size due to internalization and it also means that it will fall throughout the industry cycle. Following the decline of the optimum firm size after a certain point this is when licencing should take place relative to direct investment.

One advantage of the theory is its ability to help explain Vernon's product life cycle theory especially the length of each stage of a product's life cycle. One drawback of the theory is that the multinational corporation cannot be relied upon to create technological innovations that are suited for developing countries. They require simple production processes and simple products which make it difficult for private firms to capture returns on such ideas.

4.2.7 The Eclectic Theory

(Dunning 1977) contributed to the body of literature concerning theories of foreign direct investment by introducing a novel approach. This occurred as it was recognised that neither the industrial organisation theory nor the location theory which were both the main approaches to international production in the 1950's and 1960's could explain the existence of foreign direct investment. The former did not provide answers as to where ownership advantages were exploited and the latter did not explain how foreign firms could out-compete domestic firms within their own markets. These issues led to the development of the Eclectic Paradigm.

This paradigm has been named as eclectic for three reasons. First, it is an amalgamation of the industrial organization and internalization theories and adds the third element of location to the puzzle. This explains why companies choose to produce goods and or services in certain locations as opposed to others. Second, it is useful for explaining all types of foreign direct investment as outlined above which may be vertical or horizontal in nature. Third, it envelopes the three modes of foreign investment used by businesses when entering foreign markets,

these include direct investment, trade and contractual resource transfers such as licensing, technical assistance and management and franchising agreements.

In developing this paradigm (Dunning 1977) argued that international production would take place by a firm in the presence of three types of advantages namely, ownership ('O'), locational ('L') and ('I') internalization advantages concerning multinational enterprises.

Ownership advantages are internal to the firm and maybe tangible or intangible in nature and include among other assets technology which has a direct influence on the efficiency of the firm. (Dunning 1977) identified three types of ownership advantages. The first was concerned with any benefits which firms may have over others also producing in the same location. These relate to access to markets or raw materials unavailable to competitors, size and exclusive use of intangible assets such as patents, trademarks or management skills among others. A second kind of ownership advantage is that enjoyed by a branch plant of a multinational enterprise at no cost or low marginal costs. The third type of ownership advantage identified is one produced from the multi-nationality of a company which is also an extension of the preceding advantages.

The 'I' or Internalization advantages arise from the existence of 'O' advantages. (Dunning 1977) opined it must be worthwhile to the enterprise possessing the latter to utilise them instead of selling or leasing them to a foreign firm. This is facilitated through the extension of existing value-added chains or the creation of new ones via a process called internalization to derive these advantages.

(Dunning 1977) queried what incentives existed prompting firms to internalize their markets. The principal motivations for undertaking internalization are to circumvent problems or capitalize on the advantages of distortions in external mechanisms concerning resource allocation. In explaining the rationale behind internalization Dunning (1977: 17) observed "the basic proposition is that market failure in intermediate product markets and the need for firms to exploit the economies of interdependent activities, lead them to replace the market mechanism of cross-border transactions by internal hierarchies."

Two types of market failure were outlined structural and cognitive market failure. The former features barriers to competition and the earning of economic rents,

high transaction costs or where the economies of interdependent activities cannot be fully captured. The latter regards instances where there is a paucity of information about the product or service being marketed or it is costly to acquire. It also pertains to the cost of uncertainty and its cost to the buyer or seller. It was contended that buyers avoided market imperfections such as uncertainty over the availability and price of essential supplies and the lack of control over their delivery timing and quality. Meanwhile, sellers internalized where the market forbade price discrimination, where the costs of maintaining property rights are high, where the output is of more value to the seller than the buyer is willing to pay or where the seller carries on commercial activity through outlets and is desirous of protecting his reputation and finally where the seller wants to guarantee a certain quality of service including after sales maintenance.

Regarding, 'L' or locational advantages (Dunning 1977) argued that once the two preceding conditions were satisfied it must be beneficial to the enterprise to use these advantages alongside factor inputs outside its home country; otherwise foreign markets would be served by exports and domestic markets by domestic production. It was also acknowledged that these advantages comprised of three components. First, the availability and real cost of resources which can only be used in the locations where they are sited. Second, unavoidable or non-transferable costs such as taxes, subsidies, investment constraints, training grants and local labour requirements. Third, the costs of exporting products from their production base to the various destinations.

In summarising this paradigm (Dunning 1977) stated that a firm will engage in foreign direct investment when three conditions are satisfied. First it possesses ownership advantages vis-à-vis firms of other nationalities in the foreign market they are serving. Such 'O' advantages are intangible and maybe exclusive or specific to the firm owning them. Second, firms possessing 'O' advantages should internalize them rather than sell or lease them to foreign competitors. Third, location advantages buttress the use of 'O' advantages.

4.3 MACROECONOMIC THEORIES OF FDI

(Lipsey 2001) argued that the macroeconomic view considers foreign direct investment as a particular form of capital flow across national borders from home countries to host countries which are ultimately reflected in the balance of payments statistics of the countries. The flow of financial capital, the value of the stock of capital that is accumulated by investing firms and the flow of income from the investments are the key variables of interest. Theories based on the macroeconomic characteristics of countries which influence the inflows of foreign direct investment are reviewed below.

4 3.1 The Theory of Economic Geography (The Theory of Location)

(Makoni 2015) posited that although FDI location is influenced by firm behaviour which is a microeconomic element, whether the motives of that location are resource, market, efficiency or strategic asset seeking the ultimate decision is executed on the basis of economic geography. This is a macroeconomic determinant which considers country level characteristics such as natural resources endowment, availability of labour, local market size, infrastructure and government policy regarding the national resources.

One of the earliest expositions concerning how location affects foreign direct investment was forwarded by (Horst 1972). The research undertaken resulted in two academic publications focusing on foreign direct investment from the United States into the Canadian manufacturing industry.

(Horst 1972a) investigated what determinants were instrumental in the decision of firms to invest abroad. The first part of the analysis focused on differences between investors and non-investors in the same industry. It was found that the size of the firm as measured by either its sales or assets was key to the decision-making process of whether or not to invest abroad for several reasons. Locating abroad could involve fixed costs to facilitate foreign production and large firms would be considered as better credit risks than small firms and the former may have easier access to financing the fixed costs needed for foreign investment.

Additionally, given the risks associated with foreign investment the process maybe worrying to small firms as opposed to large firms.

It was also illustrated that the decision to locate abroad was strongly influenced by the organisational structure of the investment. If the investment was horizontal a firm's decision to invest abroad would depend on the size of the foreign market for the firm's product. Where the investment was vertical in nature the decision to locate/invest abroad depended on the firm's need for the foreign produced input. This would be influenced by demand for the parent company's output and the size of the subsidiary could depend on the size of the parent.

The second part of the article focused on differences in the foreign investing propensities of firm of given size but within different industries. Here it was argued that American firms would be likely to invest abroad to extract natural resources used in the production processes. Furthermore (Horst 1972a) argued that firms in the wood, paper, petroleum, non-metallic mineral product and basic metals industries prefer controlling natural resource extraction as a mechanism of making market entry into the United States difficult. Also, a high seller concentration in the United States industry may be viewed as a reason for investing abroad in resource intensive industries.

(Horst 1972b) sought to illustrate how technological knowledge, tariff rates, market size and factor costs influence the export and direct investment decisions of American firms. The second part of the analysis explored how American firms chose between exporting and foreign direct investment. It was found that Canadian tariff policy had a significant impact on the choice between exporting and Canadian subsidiary (overseas location) – the higher the Canadian tariff, the smaller the share of the American exports and the larger the share of Canadian subsidiary production in total American sales to the Canadian market.

(Dunning 1973) argued that location theory is concerned with supply and demand variables. Assuming a certain market size and structure, the decision to locate will be based on where costs are lowest. This would depend on the availability and cost of factor inputs, their rate of transformation into outputs and the costs incurred between the points of production and marketing. Conversely, demand oriented theories suggest production costs are independent of location and

ultimately the siting of production will be influenced by the distribution of markets and the location of competitors.

In answering the question – why international production? – (Dunning 1973) analysed the issue from the supply side and demand side perspective. Regarding the former it was theorised that the multinational enterprise was confronted with identical cost challenges as a national enterprise but its purchasing and marketing options may be wider. Concerning the latter, it was noted that the structure of competition and markets may be somewhat different. (Dunning 1973: 310) illustrated the applicability of the (Vernon 1966) thesis to the demand side perspective of location theory by opining "The Vernon thesis argues that the production of many new products and processes, first discovered in one country, is later transferred to another by a variety of means, one of which is through affiliates and innovating firms. This assumes that the innovating firms both create new markets and supply these markets initially from a domestic and then from a foreign location and in doing so they may induce a certain response from other firms and create a market structure which influence future locational decisions." (Dunning 1973) also drew a distinction between this theory which is firm leading oriented and the (Kindleberger 1969) theory that is firm following oriented as the market size and structure are both dynamic concepts.

(Nachum 2000) also contributed to the development of location theory that was used explain the phenomenon of foreign direct investment. Concepts from economic geography (agglomeration economies) were combined with ideas from international business (location advantages) into a model to explain the location of transnational corporations which engaged in foreign direct investment. The author noted that the conventional location model within international business theory stated that the selection of specific locations for investment by transnational corporations is based on their evaluation of the advantages of the immobile resources and conditions of the locations when compared to other locations. The author's model included a new variable namely measures of agglomeration economies to determine whether and to what extent they affect the intra country location choices of transnational corporations. The model is expressed in the following manner

$$FDIsti = f(LAsti: AGGsti) + Esti$$

Where FDI= inward FDI, LA= location advantages, AGG=agglomeration economies, s=states, t=time, i=industry and E=random error.

The model was tested on financial and professional service foreign direct investment with respect to the United States. It was found that agglomeration economies and location advantages both influence the location choices of financial and professional services transnational corporations in the United States. Additionally, the latter can better explain the location of these commercial entities than the former. (Nachum 2000) pointed out that FPS TNCs gravitate towards particular states more because of the abundance of certain assets and not because of clusters of economic activity. Finally, the model's explanatory power has improved over the years due to the increase in the significance of the operation measures for agglomeration economies particularly foreign direct investment.

(Moosa 2002) also expressed views on the location hypothesis and like (Dunning 1973) cited costs as a factor influencing location regarding international production. However, (Moosa 2002) was more explicit illustrating how low wages in India was pivotal in attracting labour intensive production. It was demonstrated that empirical research on the location hypothesis yielded mixed results as (Riedel 1975) ascertained lower wage costs to be a major determinant of FDI in Taiwan. Conversely research by (Goldberg 1972) and (Saunders 1973) among others showed that an increase in a host country's wages discourages foreign investment. (Moosa 2002) further contended that investment inflows to a country were influenced by labour disputes, unionization, the availability of cheap electricity and capital.

4.3.2 The Currency Area Theory

In developing the currency area theory (Aliber 1970) sought to explain why separate currency areas led to differences in capitalization rates. It was explained that source country firms capitalized the identical stream of expected earnings at a higher rate than host country firms. This difference in capitalization rates was

the corollary of the market in operation whereby different capitalization rates were attached to income streams denominated in different currencies. It was also acknowledged that there are two factors which can explain why markets apply different capitalization rates to assets denominated in different currencies. The first is concerned with the premium demanded by the market for bearing uncertainty about exchange risk. Thus, the difference between interest rates on fixed price assets denominated in different currencies may exceed the expected change in the exchange rates, this is known as the currency premium. The second is that the market applies a higher capitalization rate to the same income produced in the host country upon receipt by a source country firm when compared to a host country firm. This difference in capitalization rates is the basis upon which source country firms engage in foreign direct investment. In its absence there would be no incentive to engage in this type of commercial activity.

(Aliber 1970) tested his hypothesis and found it to be true regarding foreign direct investment in Canada, the United Kingdom and the United States. However, the theory had several weaknesses. First, it did not offer an exposition for investment between two developed countries whose currencies may be equal in strength. Second, it could not be applied to developing countries characterized by imperfect or non-existent capital markets where foreign exchange regulations are in place. Third, it does not offer an explanation for simultaneous cross investment between currency areas. Conversely, the strength of the theory is that it is applicable for describing post-war expansion of American multinational enterprises in Europe and also Japanese take-over of South-east Asia in the late 1960's and early 1970's.

(Froot and Stein 1991) estimated a model of foreign direct investment to ascertain how important the links were between exchange rates and foreign direct investment. Regressions performed using quarterly and annual data found that foreign direct investment was the only type of capital inflow statistically negatively correlated with the value of the dollar. Equally important, the empirical results of this research lend support to the belief that a country with depreciated currency is attractive to foreigners seeking to purchase corporate assets in those countries.

4.4 THEORIES OF THE MULTINATIONAL ENTERPRISE

Given the topic of this chapter it is also imperative to review the theories of the multinational enterprise. This is because it is multinational enterprises which for the most part engage in foreign direct investment in the tourism sector in the Caribbean. Beginning in the 1980s two theoretical models related to international trade concerning multinational enterprises were developed. Their purpose was to explain why these entities engaged in this type of commercial activity since previous international trade theories did not acknowledge their existence.

4.4.1 The Vertical Foreign Direct Investment Model

The vertical foreign direct investment model was developed by (Helpman 1984) who observed that then existing general equilibrium theories of international trade had developed without taking account of the multinational corporation. Thus, (Helpman 1984: 452) opined "we are in need of a theory that describes conditions under which firms find it desirable to shift activities to foreign locations and that is able to predict the pattern of trade that emerges under these foundations."

The theory applies to single product firms and is characterised by monopolistic competition, differentiated products and economies of scale. There are inputs such as marketing, management and research and development which can serve the product lines without being located in their plants. Consequently, the production process is separated into headquarter and production related activities. This is based on the fact that both locations are dominated by different productive factors. Given these features, the model is considered as an extension of the Heckscher-Ohlin trade theory which stipulates that countries produce goods and services based on their most dominant productive factors. Additionally, firms maximise profits by making cost minimizing location choices. Usually these choices involve moving part of the production process to the host country where costs are lower than in the home country. Hence, it can be argued that the trade-off is between the lower cost of producing abroad and incurring trade costs to transport the goods back to the home country. In view of the foregoing, vertical foreign direct investment will occur once the savings from overseas production exceeds the trade costs. It should also be noted that there

are no transport costs, tariffs or tax advantages in the model. Furthermore, the model does not facilitate the emergence of multinationals between identical countries and there are no multi-plant firms.

In their contribution to the debate on the vertical foreign direct investment model (Branconier et al 2002) argued that increasing integration between countries that are economically different would cause MNEs to move to low wage countries. This would enable them to benefit from gains associated with factor cost differences. However, (Branconier et al 2002) emphasised the point that little empirical research has been informed by the vertical model. Furthermore, they concluded the model has been rejected on two grounds. First, citing (Brainard 1993) they contended that the definition of vertical FDI as affiliate exports to the home country is narrow in scope. Second, it was stated that labour endowments do not significantly impact the sales of MNEs' foreign affiliates. Consequently, it has been argued that vertical FDI and differences in factor endowments are not useful for explaining MNEs activity.

4.4.2 The Horizontal Foreign Direct Investment Model

(Markusen 1984) developed the horizontal foreign direct investment model to explain the feature of multi plant operations. In doing so the existence of intangibles which are important to a multinational enterprise's level of activity in a given industry was outlined. They are concerned with research and development, marketing and advertising and are closely related to the concept of economies of multi-plant operation. This refers to the technical or pecuniary advantages of a single owner of two or more production plants over an industry also characterised by independent owners of the same production facilities.

Whilst referring to Canada (Markusen 1984) further pointed out that existing research on that country emphasized economies of multi-plant operations to explain the incidence of American multinational enterprises operating there. Given these observations it was suggested that there are two alternatives for developing a theory of the multinational enterprise. One was based on strategic considerations regarding research and development, marketing and investments whilst the other was concerned with examining aspects of technology which

illustrate how multi-plant production can be more efficient. It is the second approach which served as the foundation of a technology-based theory developed by (Markusen 1984). It would address several issues relating to market power, technical efficiency, the pattern of trade and world income distribution. Thus. the model was characterised by the following conditions. First, it should outline why a firm would wish to engage in direct investment as opposed to portfolio investment. Next, it should not rely on factor movements or factor price differences. Also, the concept of multi-plant operation should be explained to illustrate why it is superior to price collusion among independent producers. Furthermore, the model must establish that the multinational enterprise carries on an activity within several countries as opposed to supplying all countries from a single production facility. Finally, the model should allow positive economic profits as alternative distribution of profits may have implications for gains from trade.

In developing this theory (Markusen 1984) focused on how firm specific activities of a multinational enterprise could have a positive impact on production costs in two ways. First this was done by alluding to the 'public goods' or 'jointness' aspect of a multinational firm's production facilities when the example of research and development expenditures was cited. To illustrate the point, it was stated that an innovation could be incorporated into numerous additional plants without negatively affecting the marginal product of the innovation in existing plants. Hence the multinational is able to benefit from the value of its productivity in more than one location. Second, it was recognised that the centralization of firm specific activities such as managerial and technical departments yielded greater levels of efficiency and this had a positive impact on output.

The model is characterised by the identical features which are present in the neo-classical trade theories which focuses on 2 countries producing 2 goods utilising 2 factors of production. However, this assumption is included in the model to neutralize the Heckscher-Ohlin, Ricardian and demand bases for trade.

(Hortsmann and Markusen 1987) further developed the horizontal model of foreign direct investment by focusing their analysis on how plant scale economies affected a multinational firm's decision to enter a foreign market. In particular,

attention was paid to the patterns of production and future equilibrium output allocations. Thus, the analysis focused on two scenarios. The first considered the case where the host country was characterised by one plant as demand for a given product was met by multinational enterprise branch plant production. In this situation it is assumed that firm, plant and export costs and demand are such that the following conditions hold.

> First, revenue is net of variable costs for a potential entrant's equilibrium output when competing against MNE exports.
>
> Second, the equilibrium output of a firm with a single host-country plant competing against another firm with a single host country plant multinational enterprise exports equals zero. The implication of these assumptions is such that the multinational enterprise can pre-empt any entry into the host country market by opening a branch plant at some period in time $t_1 < t$.

(Hortsmann and Markusen 1987) illustrated this by way of a proposition where firm, plant and export costs exceeded zero and demand satisfies the preceding conditions whilst noting that there exists an interval $[t_1 - \Delta, t_1]$ when it is most cost effective to invest than if not investing at all. Investment occurring before t_1 means that the multinational enterprise can pre-empt market entry by competitors thereby earning rents at the level of a monopolist. It was further pointed out that as long as the aforementioned conditions are satisfied the relationships between firm, plant and export costs are not crucial. It is only pivotal that export costs exceed zero. The authors considered that this scenario was the reason why multinational enterprises existed because of the existence of host country "tariff walls" when the impact of export costs can be viewed similarly to that of tariffs. However, it was believed that investment did not occur because of the tariff but rather because of the threat of entry from firms "protected" by the tariff. Additionally, it was felt that only one branch plant could operate profitably in a host country assuming that marginal costs were constant. In such a scenario the existence of multinational enterprise branch plants could still obtain once the multinational enterprise possessed some way of pre-empting entry when threatened. This would be facilitated through increasing marginal costs since a

two-plant multinational enterprise would credibly produce more output than a one plant multinational enterprise.

The second scenario focused on two propositions where two plants could co-exist once the multinational failed to pre-empt entry by more than one competitor. The first proposition was concerned with a situation where plant costs were small vis-à-vis export costs and where firm specific costs were large ensuring a period of monopoly earnings sufficient to exceed the plant and export costs. The combination of large firm specific and export costs compared to plant costs constitute the right appropriability and returns from investment. Additionally, it is stated that multinational activity is more likely to occur in industries where firm specific and export costs are large compared to plant-specific costs. This is because the multinational will be the first to invest in the host country. This differs to total pre-emption when multinational activity is independent of the relationship between firm, plant and export costs. The second proposition where two plants co-exist due to incomplete pre-emption can arise where firm specific costs are equivalent to zero, plant specific costs are greater than zero and the revenue of one plant is less than that of two plants. In such circumstances the multinational enterprise will prefer exporting over operating a branch plant. If export costs are small any revenue earned is the return from exporting once the multinational enterprise does not pre-empt the second entrant. However, the condition that revenue earned from one plant is less than that earned if there is a second entrant means that the multinational enterprise does not appropriate enough rents from pre-empting the emergence of a new entrant. Thus, the multinational enterprises still incurs losses from switching to branch plant production. Consequently, it will choose to export its products for all of the time period.

(Brainard 1997) also extended the horizontal model of foreign direct investment by exploring the extent to which multinational production-location decisions are explainable by a trade-off between maximizing proximity to customers and concentrating production to achieve scale economies. This resulted in the development of the production-concentration hypothesis. This proposition predicts that firms are predisposed to expanding production horizontally across borders the higher are transport costs and trade barriers and the lower are investment barriers and the size of scale economies at the plant level relative to

the corporate level. The research undertaken by (Brainard 1997) relied on data concerning multinationals and it examined whether the share of total sales to foreign markets by overseas affiliates as opposed to exports can be explained by the proximity concentration hypothesis. It was discovered that affiliate production rises as a share of total foreign sales in light of the conditions stipulated in the hypothesis. Furthermore, it was realised that the effects of trade and investment barriers on the levels of trade and affiliate sales are similar to their effects on the relative shares. The higher trade barriers which (Brainard 1997) are referring to are tariffs applied by governments to imports of goods from their trading partners. Hence avoiding trade costs and 'tariff jumping' are the primary reasons driving companies to engage in horizontal investment.

In developing this hypothesis (Brainard 1997) outlined a 2x2x2 model focusing on two countries, two factors of production and two sectors. It would be characterised by several assumptions pertaining to technology, market structure and three possible equilibria. These equilibria are as follows, a pure multinational equilibrium, a pure trade equilibrium and a mixed equilibrium. The first equilibria is characterised by firms which operate plants in both markets due in part to higher transport costs and trade barriers and smaller fixed costs at the plant level relative to the corporate level. In this scenario multinational production replaces trade in final goods. There is however trade in invisible corporate services and two multinational activity in the same industry exists.

The second type of equilibrium where all firms have a single plant located in the same country as their headquarters occurs under the opposite conditions. Here two-way trade in differentiated final goods is prevalent with intra industry trade occurring once factor proportions are equal. Finally, in a mixed equilibrium a fraction of firms in each market has a single production facility and engage in exports whilst the remaining fraction has production facilities in both markets. Here firms are predominantly exporters once fixed plant costs are high, there are low transport costs and trade barriers and each market is small. Also, two-way trade in final goods and two-way multinational production occur simultaneously in this equilibrium. Lastly, it is clear then that the mixed equilibrium stipulates has a direct on the share of total sales into foreign markets because of the inverse relationship between high exports and low transport costs and trade barriers and

the direct relationship between high levels of exports and high fixed costs of production. In each of these equilibria the role of transport costs, fixed costs at plant level and trade barriers are featured prominently. Ultimately, their interrelationship has an impact on a firm's decision of whether or not to engage in horizontal foreign direct investment. The next section of the chapter compares both models before concluding.

The vertical and horizontal models both share two similarities between them. They both speak about the geographical separation of headquarter and production related activity and the issue of cost minimization. On the other hand, the models can be thought of as opposites to each other for two reasons. First, the vertical model as proposed by (Helpman 1984) was premised on the industrial organization concept of economies of multi-plant operation whilst the horizontal model of (Markusen 1984) focuses on single plant firms. Second, the former model is concerned with differences in factor endowments and factor prices whilst this characteristic is not pivotal to the latter model.

The differences between these models means that theoretically combining horizontal and vertical motives for direct investment is complex and presents difficulties regarding analysis. This fact has been acknowledged by (Carr et al 2001) who make reference to the features of the models. They highlight where the conflicts will occur and illustrate the effects of these clashes. It is noted that the assumption of no trade costs in the vertical model will nullify the motive for horizontal foreign direct investment. Similarly, assumptions of the horizontal model regarding the use of productive factors in the same proportion eliminates the factor-price motive of vertical fragmentation within some multinational enterprises between countries.

4.4.3. The Knowledge Capital Model

The drawbacks associated with uniting these two models motivated (Markusen et al 1996) to develop a new theoretical model where both vertical and horizontal firms emerge endogenously. This is a corollary of "the simultaneous existence of trade costs and different factor intensities across activities" according to (Carr et al 1996: 693). The new model containing this novel feature would come to be

known as the Knowledge Capital Model. It is premised on three major assumptions. First, knowledge based and knowledge generating activities are geographically separated from the production aspect of the multinational enterprise. They are then provided at a minimal cost to production facilities. Second, these activities are skilled labour intensive relative to production. Third, the aforementioned knowledge - based services can be utilised simultaneously by multiple production facilities.

Subsequent to the development of the aforementioned theoretical models and particularly since 1995 there has been a proliferation of regional trade agreements many of which now include provisions concerning foreign direct investment. There has also been a growth in foreign direct investment internationally which has been influenced by these regional trade agreements. This fact has resulted in academics empirically investigating the impact of regional trade agreements on foreign direct investment with greater frequency. In doing so, they have relied on the aforementioned theoretical models to explain the relationship between regional trade agreements and foreign direct investment and also to identify the pattern of foreign direct investment in each case.

4.5 THEORIES PERTAINING TO TOURISM DEMAND

In the post war period international tourist arrivals also referred to as tourism demand in the academic literature increased from 25 million in 1950 to 278 million in 1980, 527 million in 1995 and 1133 million in 2014 (UNWTO 2015). Consequently, this involved individuals travelling from their home countries to specified destinations since partaking in the tourism industry means that consumption occurs at the point of supply rather than demand.

Having said this, it is still imperative to understand what is meant by the term tourism demand and what causes it. (Dwyer et al 2010: 37) stated “tourism demand refers to the willingness and ability of consumers to buy different amounts of a tourism product at different prices during any one period of time.” It was also noted that price and tourism demand is characterised by an inverse relationship as per economic theory. Thus, when the price of a tourism product falls the quantity demanded should rise and when prices increase the quantity

demanded will fall. This relationship which is negative in nature captures income and substitution effects regarding consumer buying behaviour. The above definition is very important as it addresses the economic issue of consumer behaviour as a driver of tourism demand. Furthermore, persons can understand why some products may be deemed as more price sensitive than others to changes in prices and incomes.

Before proceeding any further, it is also important to understand what is meant by the theory of consumer behaviour. According to (Pindyck and Rubinfeld 2012: 68) it is “a description of how consumers allocate incomes among different goods and services to maximise their well-being.” Having such a definition at hand is useful because it enables persons to understand that income affects the consumption patterns of individuals and their demand for goods and services. Furthermore, it allows persons to understand that consumer preferences play a role in consumer behaviour as individuals spend their incomes on different goods and services to maximise their utility.

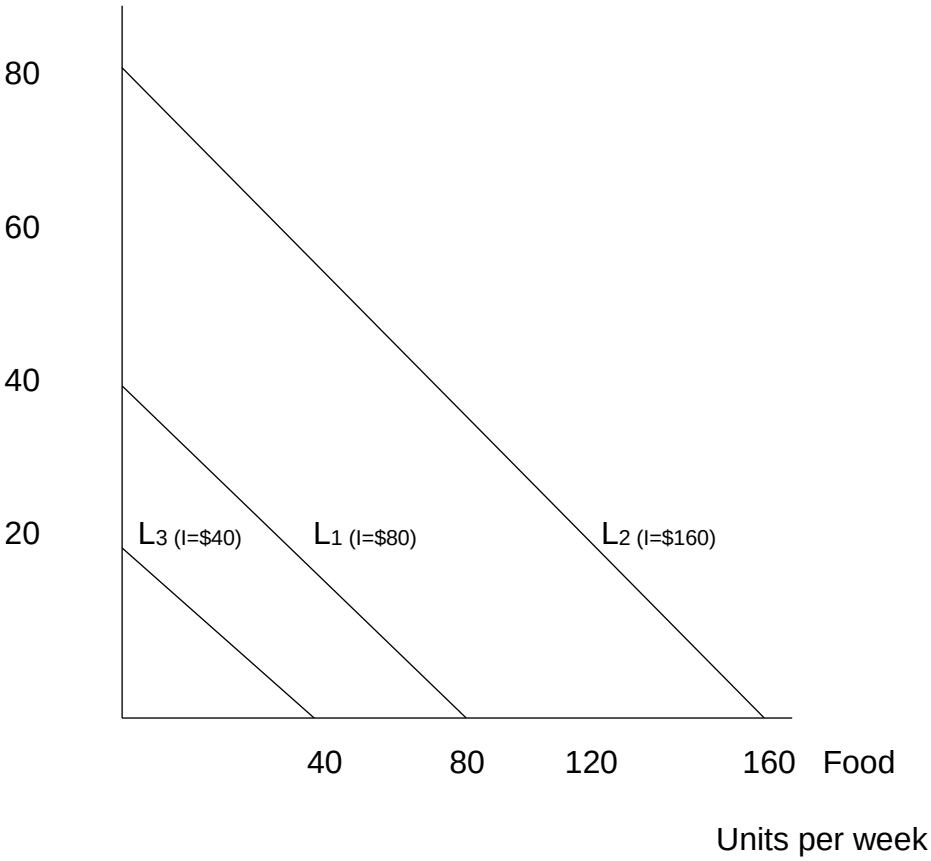
Apart from the economic motivators of tourism demand, individuals are also influenced by social and psychological motivations to travel internationally (Iso-Ahola 1982). Given the foregoing, it can be asserted that tourism demand is informed by both economic and socio-psychological theories. The economic theories which can be applied to tourism demand are the theory of consumer behavior and Lancaster’s theory of consumer behaviour. On the other hand, some of the socio-psychological theories used to explain tourism demand are the psychographic theory of (Plog 1974), the push-pull theory of (Dann 1981) and the social psychological theory of (Iso-Ahola 1982). However, this study is solely concerned with the economic theories of tourism demand which are reviewed below. Only after this exercise will one be able to ascertain which economic theory is best suited to explain tourism demand in the context of this study where income, prices and prices in a substitute destination are included as key variables in the econometric model that is estimated in chapter 7.

4.5.1 THE THEORY OF CONSUMER BEHAVIOUR

According to (Pindyck and Rubinfeld 2013) the theory of consumer behaviour is premised on the following assumptions consumer preferences, budget constraints and consumer choices. The first assumption pertains to consumer preferences which are characterised by four features namely completeness, transitivity, more is better than less and diminishing marginal rate of substitution. Regarding completeness, it was argued that consumers can rank all possible baskets irrespective of costs or they will be indifferent between them. Also, preferences are characterised by transitivity meaning that if a consumer prefers basket A to basket B and basket B to C then they would prefer A to C. A third feature of consumer preferences is that more is better since goods are considered as desirable consumers will always take of more of a good and they are never fully satisfied. Finally, preferences are illustrated graphically by way of convex indifference curves. To quantify the amount of one good forgone to consume an additional unit of another good, economists rely on the measure known as the marginal rate of substitution. Thus, a fourth element of consumer preferences is the diminishing marginal rate of substitution. Consequently, a consumer will give up fewer and fewer units of one good as increasing quantities of another is consumed.

The second assumption of the theory of consumer behaviour acknowledges the existence of a budget constraint faced by an individual because of limited income. It is an indication of all the combinations of goods for which the total amount of expenses is equal to the income. As (Pindyck and Rubinfeld 2013) observed the budget line comes under considerable influence of income and price. Invariably, this has important implications for consumer demand as a change in income can negatively or positively influence the quantity of a good demanded. Figure 25 below illustrates that when an individual's income doubles from $80 to $160 the budget line shifts outward from L_1 to L_2. Additionally, if the individual's income is reduced by half from $80 to $40 the budget line shifts inward from L_1 to L_3

FIGURE 25. THE EFFECTS OF A CHANGE IN INCOME ON THE BUDGET LINE

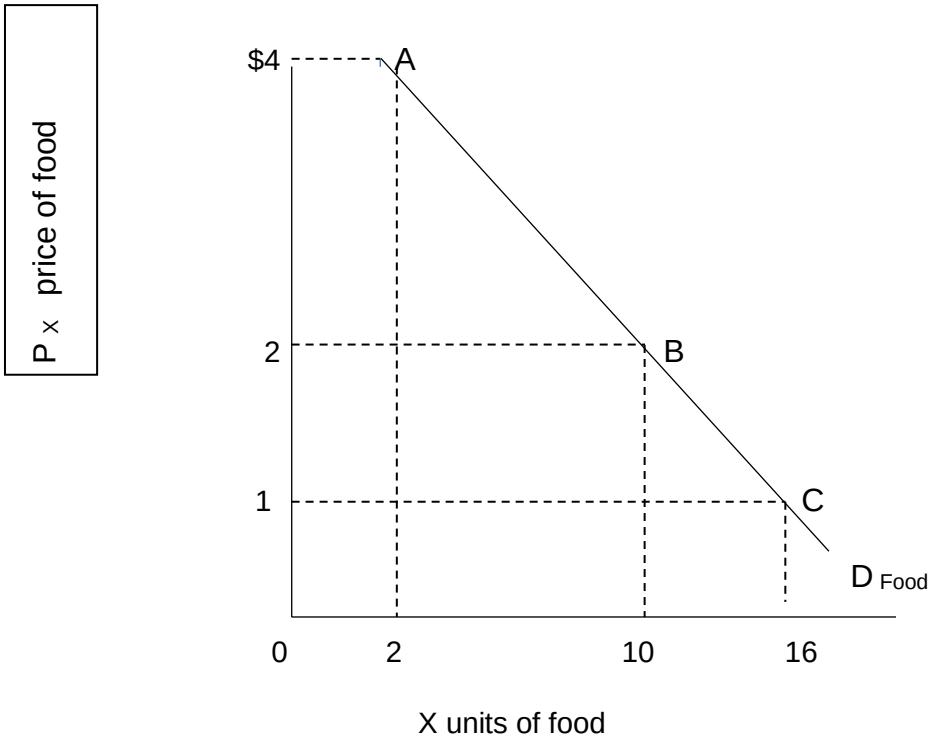


SOURCE: PINDYCK AND RUBINFELD (2013)

Similarly, when there is a change in the price of a good or service and a consumer's income remains constant this can affect the quantity of the good or service demanded. Figure 26 illustrates that when the price of food is $4 the consumer can purchase 2 units of food and when it decreases to $2 the consumer can now purchase up to 10 units. Thus, the purchasing power of the consumer has improved and does so again when the price of food falls to $1 as he or she can now purchase up to 16 units of food. In explaining the effect of a price movement on an individual's consumption patterns (Besanko and Braeutigam 2011) have observed that this is referred to as the substitution effect. Conversely,

when the price increases then the consumer's purchasing power is reduced and this change in purchasing power is termed the income effect. This is because it affects the consumer in a similar fashion that a change in income would as they realise a higher or lower level of utility since the increase or decrease in in purchasing power has affected the amount of a good purchased whose price has changed.

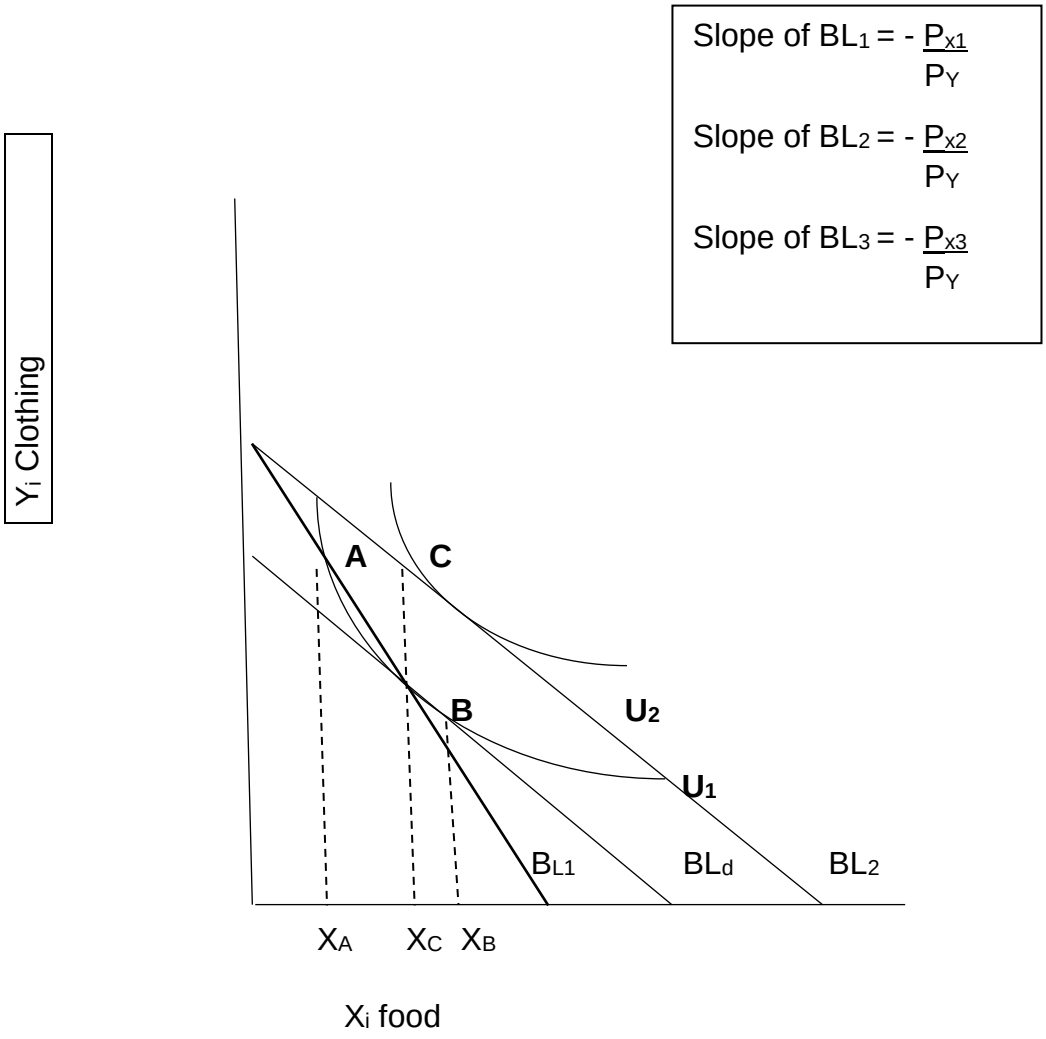
FIGURE 26. THE EFFECTS OF CHANGES IN THE PRICE OF A GOOD ON CONSUMPTION



SOURCE: BESANKO AND BRAEUTIGAM (2011)

While income and substitution effects can lead to changes in consumption patterns of normal goods they will have opposing effects on inferior goods. Hence, the income effect will be negative as the quantity of a good consumed will decrease whilst the substitution effect will be positive. This is due to the fact the substitution effect exceeds the income effect and the total quantity of a product consumed is still positive. Figure 27 below illustrates that the demand curve remains downward sloping.

FIGURE 27. INCOME AND SUBSTITUTION EFFECTS (X IS AN INFERIOR GOOD) WITH A DOWNWARD SLOPING DEMAND CURVE



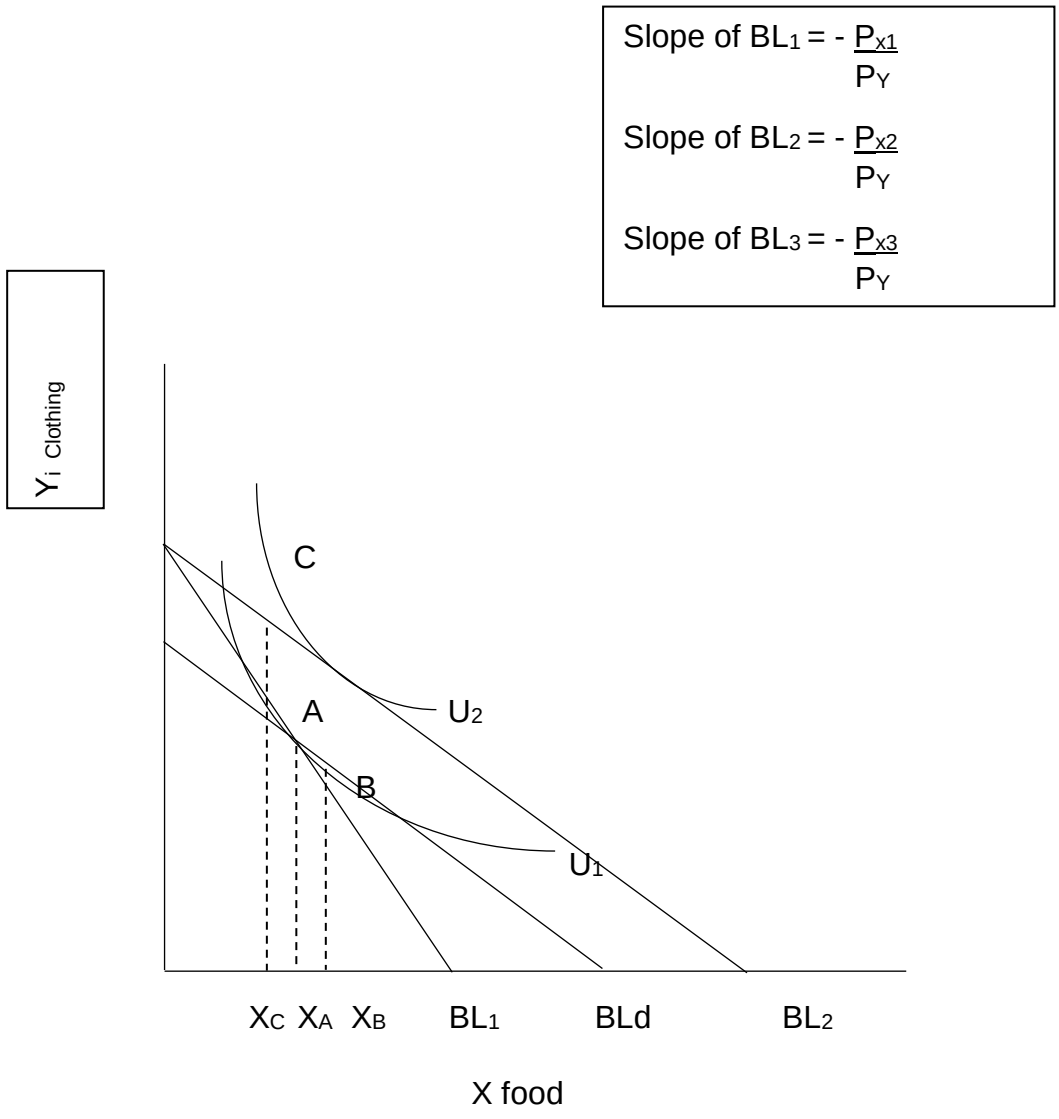
SOURCE: BESANKO AND BRAEUTIGAM (2011)

As the price of food drops the substitution effect leads to an increase in the amount of the good consumed from $X_A - X_B$ (so the substitution effect being equal to $X_B - X_A$). The income effect on consumption is negative represented by $X_C - X_B < 0$. The overall effect on consumption is $X_C - X_A > 0$.

Income and substitution effects can also affect the quantity demanded regarding Giffen goods. As (Besanko and Braeutigam 2011: 167) observed such goods "are so strongly inferior that the income effect outweighs the substitution effect resulting in an upward sloping demand curve over some region of prices." In figure 4 the indifference curves illustrate that food is a strongly inferior good as

basket C lies to the left of the decomposition basket B and the initial basket A. In this instance the income effect is so strong that it cancels out the positive substitution effect.

FIGURE 28 INCOME AND SUBSTITUTION EFFECTS (X IS A GIFFEN GOOD)



SOURCE: BESANKO AND BRAEUTIGAM (2011)

Finally, the third assumption of the theory of consumer behaviour is that of consumer choice. According to (Pindyck and Rubinfeld 2013) consumers choose goods to maximise their satisfaction and this is influenced by their budget. More importantly the market basket the consumer chooses must satisfy two conditions.

First it must be located on the budget line and second it must give the consumer the most preferred combination of goods and services desired. They argued that satisfaction is maximised when the marginal rate of substitution of one good for another is equal to the ratio of prices. This enables the consumer to obtain maximum satisfaction by adjusting his consumption of goods so that the marginal rate of substitution is equivalent to the price ratio. It was also stressed that once the marginal rate of substitution is less or greater than the price ratio the consumer's satisfaction has not been maximised. Furthermore, it was contended that when the marginal rate of substitution equals the price ratio following the purchase of two goods by a consumer the MRS can be identified by examining the prices of the goods. However, one cannot ascertain the quantity of each good purchased as that is determined solely by the consumer's preferences.

4.5.2 LANCASTER'S THEORY OF CONSUMER BEHAVIOUR

In his contribution to the development of the theory of consumer behaviour (Lancaster 1966: 133) adopted a new approach opining "The chief technical novelty lies in breaking away from the traditional approach that goods are the direct objects of utility and instead supposing that it is the properties or characteristics of the goods from which utility is derived."

Furthermore, (Lancaster 1966: 134) stated that this theory was premised on the following assumptions

1. "The good per se does not give utility to the consumer; it possesses characteristics, and these characteristics give rise to utility.

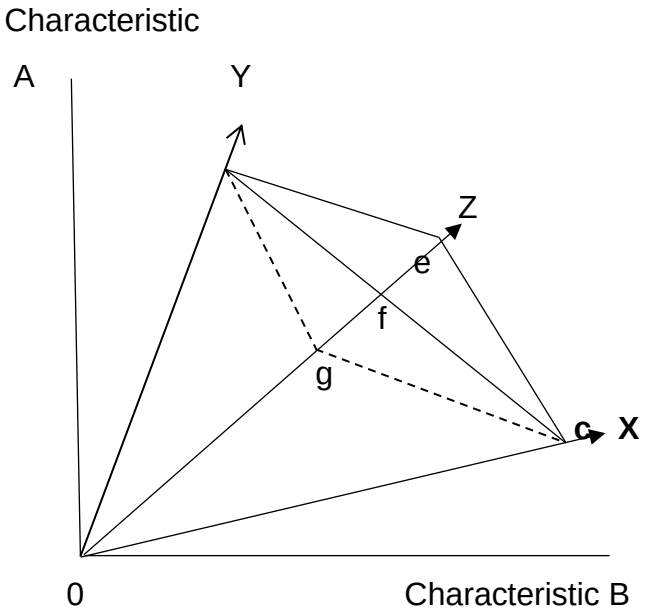
2. In general, a good will possess more than one characteristic, and many characteristics will be shared by more than one good.

3. Goods in combination may possess characteristics different from those pertaining to the goods separately."

The Lancaster model is illustrated in figure 29 below where X, Y and Z are goods and A and B their characteristics. (Hendler 1975) noted the presence of a budgetary constraint on goods results in characteristic vectors confronting

consumers. It was also asserted by (Hendler 1975: 154) the figure “illustrates a case where given the income-price situation, the consumer may obtain points c, d or e by spending his total income on X, Y or Z respectively. The points inside and on the triangle cde represent the bundles of characteristics which are attainable by linear combinations of X_1 Y_1 and Z. Lancaster has argued that an efficient consumer will choose combinations on ced_1 the consumer efficiency frontier.”

FIGURE 29. THE LANCASTER MODEL



SOURCE: HENDLER (1975)

4.6 CONCLUSION

This chapter reviewed the theoretical literature pertaining to tourism related foreign direct investment and tourism demand to ascertain which theories are best suited for explaining the above phenomena.

The analysis in the first half of the chapter has shown that the theories of foreign direct investment could be classified into macroeconomic theories, microeconomic theories, other theories of FDI and theories of the multinational enterprise. The macroeconomic theories focused on economic features of

countries which attracted foreign investors whilst the microeconomic theories highlighted characteristics of firms which enabled them to expand their operations overseas. Additionally, the other theories of foreign direct investment acknowledged the existence of other factors which have an influence on inflows of foreign direct investment. Lastly, the theories of the multinational enterprise were examined, and it is contended that the horizontal theory of foreign direct investment is most suited for describing the current pattern of tourism related foreign direct investment in the tourism sector in the OECS. This belief is best captured by the thoughts of (Blonigen et al 2003: 981) who noted “the horizontal model originates in (Markusen 1984) and describes a firm with plants that engage in the same activity in multiple locations.” Similar sentiments were expressed by (Carr et al 1996: 693) when writing on the horizontal theory as he opined “multinational activity should be concentrated among countries that are relatively similar in both size and in relative endowments (or per capita incomes).” These two quotations describe the phenomenon tourism related foreign direct investment in the OECS. The former is true of several multinational hotel chains including the Jamaican based Sandals International which operates hotels in Antigua (ECLAC FDI Report 2018) and Grenada and St. Lucia (ECLAC 2015 Briefing Paper). The latter quotation is also true of the OECS EPA signatories which are all small island developing states with similar economic characteristics as was clearly demonstrated in chapter 2.

Subsequently, in the second half of the chapter the socio-psychographic and economic theories pertaining to tourism demand were examined. It was discovered that the theory of consumer behaviour is more applicable for explaining tourism demand than Lancaster’s theory of consumer demand. This is because maximising utility based on the assumptions of Lancaster’s theory depends on choosing a basket of goods which generates the optimum bundle of characteristics. Meanwhile the theory of consumer behaviour analyses the interplay between income, prices and substitute prices on demand for goods and services which impacts how consumers can maximise their utility.

Also, this study is concerned with empirically testing what effect income, price, substitute prices, room supply and the liberalization of trade in tourism services proxied by the EPA have on European tourism demand for the OECS EPA

signatories. It is not concerned with capturing and analysing the impact of a tourism destination's characteristics on foreign demand using the Lancasterian approach as previous studies undertaken by (Rugg 1973), (Morley 1992) and (Seddighi and Theocharous 2002) have done.

CHAPTER FIVE

LITERATURE REVIEW

5.1 INTRODUCTION

Given the scope of this doctoral study the literature review will examine numerous academic articles within several streams of literature which are relevant to the project. Consequently, this chapter examines empirical literature on the CARIFORUM EU EPA, the liberalization of trade in tourism services, the liberalization of trade in tourism services in the Caribbean, tourism in the Caribbean, the liberalization of trade in services in the Caribbean, foreign direct investment in the Eastern Caribbean, tourism related foreign direct investment in the Caribbean and tourism demand in the Caribbean concerning the economic determinants of demand.

The literature on the EPA has been reviewed and illustrates that the studies which focused on trade in goods were econometric in nature. On the other hand, the studies which have focused on trade in services have been explanatory and analytical as none of them is econometric in nature. This may be attributed to the fact that there are issues regarding availability of statistical data concerning the value of trade in services between the CARIFORUM and European Union groups of states. This fact has been recognised by (Silva et al 2014: 97) who opined "services data are subject to particularly strong constraints when evaluating the impact of a bilateral/bi-regional FTA…..while progress has been made throughout the region in implementing standards for BOP data collection and publication there are still important limitations to keep in mind when analysing trade in services statistics, on both the EU and CARIFORUM sides."

In relation to the liberalization of trade in tourism services, the literature reviewed focuses primarily on the GATS as this is the first trade agreement which introduced services, including tourism services to the global trade agenda following the Uruguay Round of trade negotiations.

The review of the literature on the liberalisation of trade in tourism services pertaining to the Caribbean, demonstrates that no empirical research using actual data exists that has modelled the effect of liberalizing trade in tourism services

under the EPA on the tourism sector in the OECS. This research will be the first to model the effect of liberalizing trade in tourism services on inflows of tourism related foreign direct investment to the OECS EPA signatories and European tourism demand for those countries.

Regarding tourism in the Caribbean, the literature review focuses on the post 2000 period which is significant for three reasons. First, it marked the end of the Lomé Agreements which previously facilitated non-reciprocal trade between the European Community (the progenitor of the European Union (EU)) and the African, Caribbean and Pacific (ACP) group of states. The Lomé Agreements would be replaced by the Cotonou Agreement that was signed on June 23, 2000 which lasts until 2020. Second, the period has been characterised by a series of ongoing trade negotiations between the EU and the ACP states concerning new trade arrangements. These arrangements would be informed by Economic Partnership Agreements which would be compatible with World Trade Organisation rules. Thus far, only the CARIFORUM group representing the Caribbean states has signed a full EPA with the EU. Third, focusing on this period will illustrate if any academic research on the EPA and tourism has been published.

Including the literature on the liberalization of trade in services in the Caribbean is important as it highlights that very little has been written so far by academics on the issue. Therefore, this dissertation will be an addition to the small body of literature but from the perspective of the trade in tourism services under the EPA. Regarding foreign direct investment in the Eastern Caribbean there is a paucity of academic research on the issue in the sub-region. However, this dissertation will contribute to the research on the subject illustrating tourism related foreign direct investment is critical to the sub-region economies.

5.2 THE CARIFORUM EU ECONOMIC PARTNERSHIP AGREEMENT – WELFARE AND FISCAL EFFECTS.

Embedded within the literature on the EPA is a set of academic research which has focused principally on the economic effects (fiscal, welfare and otherwise) of the EPA on the CARICOM/CARIFORUM groupings or in other cases on individual territories. These are reviewed below.

(Nicholls et al 2003) employed the Almost Ideal Demand System (AIDS) to compute import shares for Standard International Trade Classification (SITC) product groups concerning imports of Jamaica, Trinidad and the OECS from NAFTA and the EU. The investigation focused on a pre-EPA and an EPA scenario in each instance. It was recognised that the estimation results of the OECS were better than those of Jamaica or Trinidad. In the categories of Food and Live Animals and chemicals the results were significant at the 5% level. However, this was not the case concerning manufactured goods and machinery. The AIDS models were then used to project tax revenues for the period 1997-2000 in both pre-EPA and EPA regimes. Regarding the latter, it was illustrated that trade taxes would decline for Jamaica, Trinidad and Tobago and the OECS on average by 3.45%, 3.7% and 15.04% respectively for the period 1997-2000.

(Gasiorek and Winters 2004) investigated what impact the EPA would have on Caribbean import behaviour from four sources of supply namely the European Union (EU), United States (US), CARICOM and the rest of the world. Throughout the article reference is made to key terms and concepts relevant to regional trade theory such as trade creation and trade diversion whilst that of trade reorientation is defined. To ascertain whether trade creation or trade diversion would occur the authors outlined several scenarios involving the EU and the rest of the world as the sources of supply. It was projected welfare gains would occur where

> the EU is the sole supplier in the Caribbean market and the more elastic is its supply schedule then trade creation will result;
>
> the sole supplier is CARICOM which might give rise to trade reorientation;

the market is shared between the EU and the rest of the world but where the marginal import price is determined by the EU this will possibly yield trade creation and/or trade reorientation.

On the other hand, welfare losses via trade diversion, revenue loss or terms of trade effects would occur where

the rest of the world supplier is subject to tariffs and is the sole supplier and

the marginal import price is determined by an elastic rest of the world supply schedule but the EU has a larger share.

(Greenaway and Milner 2006) used a partial equilibrium model to ascertain what effect a reciprocal liberalized trade regime under the proposed EPA would have on Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and Trinidad. Their study revealed that the impending trade regime would negatively affect the above CARICOM states. In some instances, the effect of reciprocal liberalization was projected to be worse than in others. For example, Trinidad was forecast to see its net welfare decline by EC$ 292.90 m or by 1.9% of its Gross Domestic Product (GDP). Meanwhile, Jamaica was predicted to witness its net welfare decline by EC$ 550.31 m or 4.5% of its GDP. Conversely this study revealed that multilateral liberalization was welfare improving with gains ranging from 0.3% for Trinidad to 0.8% for Jamaica. Finally, it was illustrated that the analytical results of this would differ depending on whether it is assumed that the sources provide homogenous goods or competing differentiated products. In this instance the study was characterised by a differentiated goods model.

(Busse and Lüehje 2007) empirically assessed the impact of the EPA on trade flows for 11 Caribbean countries. Using a partial equilibrium model the authors projected that the trade effects of the EPA on 11 CARIFORUM countries would result in an overall change in Caribbean imports from the EU totalling US $190 million. This research also showed that there could be a likely loss of customs revenue resulting from the trade liberalization. On average CARIFORUM states obtain 15.4% of their government revenues from import duties. The expected losses in customs revenue amounted to an average of 15.1% of total import

duties. In summing up a number of policy implications and their consequences were highlighted. Caribbean countries could negotiate and sign an EPA establishing a free trade agreement with the EU or they could opt for GSP preferences for which only Haiti is eligible. It was recognised that Caribbean producers will have to cut production and employment due to competition from imports and domestic firms may become more competitive internationally by purchasing cheap investment and intermediate goods. The knock-on effect is that it will enable increased output and employment. When domestic markets are opened up gains from trade are realised and higher adjustment costs result. Workers may face job losses within import-competing sectors and be forced into other economic sectors for employment during which time they suffer loss of income and incur other costs whilst searching for employment.

(Hosein 2008) estimated the welfare impact which the EPA would have on the economy of Trinidad and Tobago for the period 1998 - 2005. In seeking to achieve the aim of that study (Hosein 2008) justified utilising a partial equilibrium framework which was developed by (Greenaway and Milner 2003) instead of a general equilibrium framework. The author explained that the latter necessitated extremely detailed information on the economy which may have been unavailable. The results of this exercise indicated that EPA would cause there to be a net welfare loss of EC $197.1 million to the economy of Trinidad and Tobago.

Similarly, (Dodson 2013) assessed the static welfare impact which liberalising imports from the EU under the EPA would have on Guyanese consumers. Using the identical methodological approach of (Hosein 2008) and the rationale for its use, (Dodson 2013) arrived at a similar conclusion. The findings of this study illustrated that Guyana would realise a net welfare loss of US $31.01 million or 2.2% of its Gross Domestic Product.

(Mahabir 2011) undertook a preliminary analysis on the impact of the EPA on CARICOM's exports to the EU market for the period 2008-2010 using a gravity model. It aimed to ascertain whether or not CARICOM exporters were able to avail themselves of advantages given that market liberalization of goods had occurred. Since the modelling process was plagued by numerous reported zero trade flows (Mahabir 2011) by referring to previous research stoutly justified using

the Poisson Pseudo Maximum Likelihood (PPML) estimator as opposed to the traditional approaches to solve this problem. This process illustrated that the PPML methodology performs well even when there are many instances of zero trade flows in gravity models. This was demonstrated when a comparative analysis of the results generated by various methodologies was undertaken. Equally important, the results generated from the PPML estimator show that CARICOM as a unit has not increased its exports to the EU. Rather, it is the Lesser Developed Countries within the trading bloc which have benefitted from increased market access as opposed to the More Developed Countries.

Apart from the above articles only the research executed by (Mohammed 2008) did not focus on welfare effects. Instead that author chose to examine whether the Caribbean Single Market & Economy (CSME) and the EPA can aid in enhancing CARICOM competitiveness. It was argued that CARICOM governments could no longer premise their competitiveness on cost advantages based on scale economies. Instead economic restructuring to propel diversification into skill/knowledge intensive goods and services was mandatory. Thus, (Mohammed 2008) contended that competitiveness is a major objective of the CSME and it should be a centre-piece of the EPA; in order to become more competitive, there had to be a radical alteration in the thinking of CARICOM policy makers and production should focus on higher value-added goods and services.

Regarding, competitiveness and the CSME (Mohammed 2008) noted that the regional economic integration project was established to circumvent problems of small size structural deficiencies and bolster the region's competitiveness. The larger market advantage of regional integration was explained and it was shown that this could act as a centripetal force as far as firms were concerned. Furthermore, the author posited that the regional market becomes the testing ground for firms prior to entering the global market. It was also recognised that as the Dominican Republic is within the CARIFORUM for EPA negotiations with the EU this is an excellent opportunity for CARICOM to re-examine its issues of competitiveness. This assertion is based on the belief that the products exported by the Dominican Republic can enhance inter-industry trade. Remaining on the point of competitiveness (Mohammed 2008) noted that extant competitive advantages in agriculture and services can be maximised if proposals are

forwarded to achieve such goals. Also, competitive advantages in potential areas should be earmarked for development. Additionally, CARICOM should use the European Development Fund and European Regional Development Fund for boosting competitiveness as this is one of the core aims of the fund.

(Mc Lean et al 2014) undertook a study which sought to provide a preliminary assessment of the impact on trade in goods under the EPA that focused on 5 CARIFORUM states namely Barbados, Dominican Republic, Guyana, St. Kitts and Nevis and St. Lucia. They employed a mixed methods approach relying on consultations with private and public sector stakeholders; econometric analyses including the calculation of the Revealed Comparative Advantage and Trade Complementarity Indices and the use of Vector Autoregressive Modelling, Partial Equilibrium Analysis and gravity models amongst other quantitative and qualitative analyses. The analysis also focused on challenges that have characterised the implementation process.

Results of the study suggest that the EPA would not yield a welfare enhancing outcome for the countries examined. This is the corollary of tariff liberalization and trade diversion away from non-EU sources towards the EU market. Exports from CARICOM countries were found to be less competitive than those from the Dominican Republic and trade complementarity between CARICOM and the EU was low but Dominican Republic has witnessed some increase in its trade complementarity with most of the EU countries.

In terms of the challenges confronting the CARIFORUM states concerning the implementation of the EPA it was found that they were many and varied. For example, it was argued that the first 5 years of the EPA implementation occurred during the global financial crisis which affected the ability of regional economies to allocate resources towards this venture. (Mc Lean et al 2014) also stated that there was some reluctance on the part of the private sector to exploit market opportunities under the Agreement which they state may be caused by an information dissemination deficit. Equally, the existence of non-tariff barriers such as Technical Barriers to Trade (TBT) and sanitary and phyto sanitary (SPS) measures in the EU and the lack of such infrastructure in the Caribbean have negatively affected the ability of CARIFORUM states to diversify their export of

goods to the EU. Last, it was illustrated that the issue of Octroi de Mer (dock charges) levied by the French Caribbean Outermost Regions (FCORs) have had a negative impact on exports from CARIFORUM states. These FCORs apply lower Octroi de Mer to goods produced within their borders relative to identical goods produced in and imported from CARIFORUM states. This measure which is permissible under Article 239 is injurious to CARIFORUM exporters.

(Lorde and Alleyne 2018) modelled trade and revenue impacts of implementing the EPA in Barbados using the TRIST model, a partial equilibrium model which was developed by the World Bank. The technique was employed as it duplicates the response of variables to changes in the tariff rates. These duplications showed that the trade and revenue impacts depended on whether the rates applied are the statutory rates. If tariff rates differ from statutory rates, imports rise, revenues will decrease and trade diversion benefits the EU at the expense of the USA. When statutory rates are applied imports decrease and revenues increase as the United States benefits from trade diversion. The study found that the trade and revenue impacts on Barbados will be small with total imports changing by less than 1% and total trade revenue changes by just over 1%. However, the EPA's effects on imports from the EU will be larger as trade effects will be of the order of 4% to 5% and revenue impacts will be around 11%.

In concluding this review of the literature concerning the welfare and fiscal effects of the EPA it is quite clear that this free trade agreement will have negative consequences for CARIFORUM/CARICOM states in terms of welfare and fiscal effects. Ultimately, the citizens of the Caribbean stand to lose the governments will also lose revenues when tariffs are abolished. Therefore, there will be less money available to be spent for infrastructural development projects in Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

5.2.1 THE CARIFORUM EU ECONOMIC PARTNERSHIP AGREEMENT - TRADE IN SERVICES

Whilst most of the literature on the EPA has focused on trade in goods and the consequential economic effects which CARIFORUM states will experience some academics have conducted research pertaining to the EPA and trade in services. Their work is reviewed in the following paragraphs of this sub-section.

(Freckleton 2013) investigated whether CARIFORUM countries have comparative advantage regarding trade in services to ascertain whether such benefits could lead to economic diversification in terms of service exports. This was done by using two indexes of revealed comparative advantage RCA1 and RCA2. The former (RCA1) being the standard Balassa Index and the latter (RCA2) being a variation of it.

The results of this study showed that 13 of 15 CARIFORUM states had Revealed Comparative Advantage in travel services in 2010 with the exceptions being Trinidad and Suriname. Regarding non-tourism services such as transport, insurance and business services revealed comparative advantage was had by five, nine and seven CARIFORUM states respectively. Only one country Jamaica had Revealed Comparative Advantage in personal, cultural and recreational services. Regarding the RCA2 Index all CARIFORUM states had a Revealed Comparative Advantage for travel services, three for transport, 5 for insurance and 1 each for business and personal, cultural and recreational services. Based on the results generated it was argued that there is potential for CARIFORUM states to diversify into non-tourism services which is dependent upon the critical issue of market access.

In relation to CARIFORUM states the EPA grants enhanced market access for services exports to the EU market in more than 90 percent of its service sectors across all four modes of supply. Thus, (Freckleton 2013) believed that given the comparative advantages of CARIFORUM states in business services and personal, cultural and recreational services the EU liberalization commitments provide CARIFORUM states with an excellent opportunity to capitalise on the export such services. The same cannot be said as far as access to regional market for services is concerned since it is limited. It was stated that services

liberalization under the General Agreement on Trade in Services (GATS) did not lead to any significant liberalization of services trade by CARIFORUM states. These countries opted to invoke Article 19 of GATS that allows developing countries to open few service sectors for liberalization. Ultimately, the author believes that the findings of the study should prompt CARIFORUM governments to diversify their economies by implementing policies to promote exports of these non-tourism services.

(Francis and Ullrich 2009) analysed developmental aspects specifically related to issues concerning economic and social growth, the degree of liberalisation in trade in services, the scope of sectoral and modal commitments, regulatory requirements, the extent to which the Agreement is compatible at the multilateral level of the General Agreement on Trade in Services (GATS) as well as with current and future regional integration and potential impacts on CARIFORUM regional integration.

Several features or horizontal elements of the EPA are examined with claims being made. Regarding asymmetric liberalization it is argued that the importance of the service sector in contributing to GDP activity and percentage of total exports will likely result in opportunities for development in CARIFORUM states. This is an extremely important statement because it is indicating to the reader the economic importance of the service sector to CARIFORUM states. A weakness of this claim is that it is not based on any econometric analysis which suggests that opportunities will arise for development in CARIFORUM. Also, the authors are saying to their audience that the economic importance of services to CARIFORUM probably indicates why they were included in the EPA for liberalization. In relation to market access it is claimed even though there is considerable scope for opening in mode 4 the actual developmental impact will likely be relatively limited. This is due to the economic needs tests requirements imposed on CARIFORUM contractual service providers. As the article provides no details on them it is difficult to conclude that the developmental impact will be limited as posited by the authors. Last, with respect to labour and environmental standards it was stated that the provisions in the EPA are GATS Plus and can cause pro-development growth. It has also been claimed that some developing and least developed countries believe these provisions may hide the protectionist

intentions of developed countries. The significance of this issue is that introducing labour issues into multilateral and bilateral trade agreements may undermine the comparative advantage of lower wage trading partners and could undermine their ability to raise standards through economic development, particularly if it hampers their ability to trade.

(Schloemann and Pitschas 2009) reviewed the Regulatory Framework chapter of the EPA to ascertain two things. First, whether the regulatory provisions relate to WTO rules and to what extent they are “WTO Plus” commitments. Second, if they promoted or hindered development because of administrative issues that may be challenging to CARIFORUM states. The ultimate aim was to discover if the EPA is good for development.

The general provisions of chapter 5 and disciplines concerning all six service sectors (computer, courier, financial, maritime, telecoms and tourism) were individually analysed. In relation to Mutual Recognition, (Schloemann and Pitschas 2009) opined that Article 85 of the EPA was “WTO Plus” since it envisaged a multistage process culminating in the development of Mutual Recognition Agreements (MRA) whilst Article 7 of the GATS did not. However, Articles 86 and 87 concerning transparency and procedures respectively were not considered to be “WTO Plus”. Regarding the aforementioned services sectors it was illustrated that all except computer and maritime services contained “WTO Plus” disciplines. The third section of chapter 5 pertaining to courier services is considered to be “WTO Plus” since no such disciplines regarding this service sector exist in the GATS as (Schloemann and Pitschas 2009: 116) noted.

Section 5 of chapter 5 contains provisions 103 to 108 relating to the regulation of financial services. It has been noted that CARIFORUM has made nearly twice as many commitments in this sector – 83 in total when compared to the 44 made under GATS during multilateral trade negotiations. The provisions are strongly influenced by the GATS Annex on Financial Services (the Annex) and the Understanding on Commitments in Financial Services (“the Understanding”). The former forms part of WTO law whilst the latter does not as it only applies to WTO members that have chosen to undertake commitments on financial services consistent with the approach adopted by the Understanding. No CARIFORUM

state has done so and (Schloemann and Pitschas 2009: 124) argue “therefore all obligatory elements derived from the Understanding represent “WTO Plus” commitments.”

Several Articles pertaining to financial services are said to be “WTO Plus” for example Article 103 (2) (d) defines the term “new financial service” which is not found in the Annex. However, it corresponds to the definition in the Understanding which is “WTO Plus” as stated above. Article 105 (1) seeks to enhance transparency concerning the adoption of new measures of “general application” which (Schloemann and Pitschas 2009) equate with Article 3 (1) of the GATS mandating WTO Members to publish promptly “all measures of general application which pertain to or affect the operation” of the GATS. Article 105 (1) of the EPA goes beyond Article 3 of the GATS since it covers measures which CARIFORUM or EC states propose to adopt as oppose to measures already adopted and it is therefore viewed as being “WTO Plus” in nature. Articles 106 and 107 which speak to the issues of new financial services and data processing are also viewed as “WTO Plus” as they both appear in the Understanding. It was noted that the first sentence of Article 106 is similar to paragraph 7 of “the Understanding” and the difference between the two is that the latter only applies to new financial services offered by financial service suppliers that have established a commercial presence in the country where the services are to be supplied. Article 107 corresponds to paragraph 8 of “the Understanding” which contains two important dimensions. Parties must facilitate the flow of financial data across borders required in the course of business of a financial service provider and they must take effective steps to ensuring the protection of data. An important aspect of this section on financial services is Article 104 the “prudential carve out” authorizing regulators to take exceptional measures for prudential reasons to protect investors, policy holders or persons who are owed a fiduciary duty by such service suppliers.

Several of the EPA provisions on the telecommunications sector outlined in section 6 are also stated to be “WTO Plus” as their obligations on Member states surpass those in corresponding provision of the Reference Paper on Basic Telecommunications which form part of the WTO law. Thus, Article 95 facilitates a far reaching right of appeal against regulatory decisions. Also, the wording of

Article 96 (1) of the EPA radically alters the situation concerning the authorization to provide telecoms services. The corresponding provision, Section 4 in the Reference Paper provided for the availability of licencing criteria and left the issue of licencing to be overseen by Member Governments. However, Article 96 (1) states “provision of services shall as much as possible be authorised following mere notification”. (Schloemann and Pitschas 2009) interpreted this to mean that notification shall be equated with automatic authorization to provide the telecommunication service. Additionally, it has been argued that only sub-sections (1) and (2) of Article 98 are “WTO Plus”. Regarding the former, there is no corresponding provision in the Reference Paper. It allows authorized telecoms service providers to negotiate interconnection with other telecoms service providers. The latter, is dealt with in section 1.2 (b) of the Reference Paper but the authors acknowledged that the WTO Plus characteristic of sub section stating “the extension to others appears as a reflex of Para. 1” and fail to explain who they are referring as “others” which confuses the reader.

Similarly, like Article 98 some sub-sections of Article 100 particularly sub-sections (1) and (2) correspond to a section (namely section 3) of the Reference Paper, whilst sub-section (3) is considered to be “WTO Plus”. This is because it enables all telecoms service providers to become eligible for universal service and requires parties to consider suitable compensation mechanisms for universal service provision. Furthermore, Article 101 which speaks to the issue of confidentiality of information and imposes an obligation on Parties to ensure the privacy of telecoms and traffic data. It is regarded as being “WTO Plus” since neither the GATS nor the Reference Paper cover this issue. Finally, the issue of disputes between suppliers is dealt with by Article 102 and it is WTO Plus in nature since there is no corresponding provision in the Reference Paper. It requires telecoms regulators to act as arbitrators in disputes between telecoms service suppliers.

Concerning tourism services (Schloemann and Pitschas 2009) argued that all of section 7 of chapter 5 of the EPA which outlines regulatory disciplines on tourism services is described as ‘GATS Plus’ given the absence of such provisions in the GATS. All of these disciplines were examined at length earlier in section 2.6 of chapter two.

Ultimately it has been argued that any provisions of the EPA which are akin to those in the Annex are not “WTO Plus” whilst those akin to any part of the Understanding would be viewed as “WTO Plus”. Furthermore, the sector specific disciplines which are “WTO Plus” will place additional administrative, regulatory and legislative challenges on the EPA Parties. The extent of these challenges depends on individual parties’ existing commitments under the GATS. In seeking to determine whether the EPA is good for development the authors conceded that the paper cannot answer this question but noted some of the benefits which CARIFORUM states could receive. These include market access for tourism and cultural and entertainment service providers as well as efficiency gains associated with good governance.

(Siles-Brügge and Heron 2012) located the EPAs within the wide shift in EU trade policy from multilateralism first towards competitive liberalization. In seeking to account for this occurrence it was stated that they would focus specifically on EPAs. A gap in the literature on EU studies was identified as it relates to why the EU moved from multilateralism first to competitive liberalization, why the WTO plus provisions feature prominently and why this strategy has informed negotiations in its ‘development’ as well as its ‘commercial’ free trade agreements. Their research indicated that the shift was influenced by two seminal events. First, there was the United States’ pre-emptive move towards competitive liberalization following the collapse of the Cancun Ministerial in 2003. Second, there was the publication of the EU’s trade policy strategy document entitled Global Europe (discussed below more extensively) in 2006 outlined why the EU was pursuing a policy of competitive liberalization. Mentioning these two events helps readers to understand more easily why the actual shift occurred.

Regarding the inclusion of WTO Plus provisions in the development driven EU CARIFORUM EPA the authors focused their analysis on the issue of services and investment. They noted that following a surge in bilateral agreements signed by the United States which emphasised services and investment liberalization and regulatory harmonisation caused the EU to soon adopt a similar trade policy strategy. It was argued that this trade policy shift came under the influence of the European Service Forum which engaged in intense lobbying of trade policy-makers. This resulted in a complete turn-around in EU trade policy as Global

Europe (2006) stated that new free trade agreements should aspire for 'the highest possible degree of trade liberalization including far-reaching liberalization of services and investment. Prior to this the Trade and Competitiveness Issues Paper was more concerned further integration of the EU's internal market and not external liberalization. Here, the highest possible degree of liberalization would refer to provisions which would be WTO Plus in nature. It was stated that their appearance in the EPA suggested the agreements were partly influenced by independent, political and commercial interests. The significance of this point is that it illustrated the role played by entities in influencing trade policy development. Additionally, it allowed the authors to easily indicate why they chose an alternative theoretical framework other than institutional dynamics to inform this work.

Furthermore, (Siles-Brügge and Heron 2012) argued that WTO Plus issues featured prominently in the EU CARIFORUM EPA and the EU-Korea Free Trade Agreement by focusing on the 'Minimum Platform' on investment which served as a template for a chapter on 'Establishment, trade in services and e-commerce'. They opined that the Minimum Platform was so called partly because it referred to the 'minimum' being sought from trade partners concerning future trade agreements. It emphasised services and investment liberalization which was considered as significant. Therefore, the authors highlighted the existence of a common set of drivers for agreements negotiated on the basis of their liberalization provisions.

They also argued that the most significant innovation was the Minimum Platform's Most Favoured Nation Clause. The purpose of the Most Favoured Nation Clause was to ensure that trade preferences which were granted by a party to others are extended automatically to the signatories of a particular agreement. The MFN clause is the foundation of the GATS. Under the GATS, Article 5 allows an exemption for all such regional economic integration agreements and more specific exemptions are outlined under an Annex of the GATS. However, the 'Minimum Platform' provides an exemption only for a 'regional economic integration agreement requiring parties thereto to approximate their legislation'

Finally, the strategy of competitive liberalization informed the negotiations in the EU's 'development' and 'commercial' oriented free trade agreement negotiations because of the EU's desire to match or exceed the liberalization gains which its rivals such as America and Japan. This was because those countries had acquired market access concerning services and investment liberalization in developing countries or trading blocs with which they had signed trade agreements and where. As pointed out above this usually is a result of the actions firms lobbying governments for preferential access.

The preceding review of the literature review regarding trade in services illustrates that many of the provisions concerning services are 'WTO Plus'. They exceed commitments that had previously been agreed to at the multilateral level as part of the Doha Development Agenda round of trade negotiations. The net effect of signing the EPA is that the OECS EPA signatories now have less policy space to regulate the identical sectors than they had when they made commitments under the Doha Development Agenda

5.3 THE LIBERALIZATION OF TRADE IN TOURISM SERVICES

Previously in chapter 2 it was indicated that trade in tourism services along with other service sectors was placed on the global trade agenda in 1986 and subsequently liberalized when the GATS became a reality alongside the World Trade Organisation (WTO) which was established in 1995. Since the 1990's several pieces of academic research have been produced on the issue. Here, the literature has been separated into three categories based on their focus.

5.3.1 THE CONSTITUTION OF THE GATS

A review of the literature revealed that the earliest research on the issue tended to be descriptive in nature. (Handszuh 1992) outlined how GATS is constituted, specified how tourism services and trade are defined in the context of the agreement and explained how the four sectoral annexes on telecommunications, financial services, air transport and the movement of natural persons are important to tourism.

(Edgell 1995) noted the emergence of services was a new subject in international trade leading to the establishment of the GATS which included tourism services. Several restrictions to international tourism were highlighted and the research focused on how such impediments to trade in tourism services could be eliminated. It was argued these problems could be resolved by the GATS. However, it was also noted that the effect of the GATS on tourism services depended on the response of each country. It was further stated that there was progress in recognizing the importance of barrier elimination in relation to international trade in tourism. Finally, it was argued that progress was dependent on countries recognizing liberalizing trade in tourism services would enhance growth of the global tourism industry.

(Honeck 1999) also conducted research on the GATS and the tourism industry which was descriptive of the contents of GATS schedules. The author went further than (Handszuh 1992) and outlined tourism commitments as they then existed in 1998 illustrating that the tourism services sector had attracted the most commitments by WTO members compared to any other sector. The research also highlighted the benefits to be derived from making GATS commitments in tourism and it was argued that they are instrumental in national development plans of the sector.

What is clear from the above articles on the GATS in the early years is that (Handszuh 1992) and (Honeck 1999) were merely describing the architecture of the trade agreement. Conversely, (Edgell 1995) focused his discussion on how the GATS could be applied to the tourism sector.

5.3.2 THE IMPLICATIONS OF THE GATS FOR THE TOURISM SECTOR

Since 2000 the academic debate concerning trade in tourism services has become more analytical and focused on two dimensions of the GATS' impact. First, the discourse has focused on the implications of the GATS for the tourism sector. Second, attention focused on the GATS' impact on sustainable tourism practices.

(Suresh 2001) scrutinized the situation with regards to India. It was argued that the language of Article 1(3) of the GATS takes precedence over any local, national or regional priorities when there is a conflict between the GATS and Indian legislation. Also, it was contended that measures implemented by host countries to protect their environments and regulate the industry could be viewed as contravening Article 16 market access commitments of countries under the GATS even if they do not discriminate between local and foreign firms. Furthermore, it was shown that a measure which compels foreign firms to employ local people could be viewed as violating the national treatment rule – Article 17 – of the GATS. (Suresh 2001) also showed that the GATS robs host countries of the ability to use policy instruments to benefit domestic investors, it causes socio-environmental problems regarding land and water usage and leads to economic problems since its schedules invalidate any avenues through which locals can derive benefits from tourism. At the same it was shown how negative characteristics (leakages and anticompetitive practices) of the international tourism industry had detrimental effects on tourism players of the south. It was suggested that these could be overcome with the implementation of a home-grown tourism strategy to benefit the operational capacities of local players. However, GATS does not permit such preferential initiatives. Thus, (Suresh 2001) opined that it is a treaty influenced by transnational corporations which control 80% of the mass tourism market.

Developments in the then ongoing GATS negotiations were also highlighted specifically the Annex on tourism services that was proposed by several developing countries. (Suresh 2001) argued that the Annex proposal recognised there had been no supervision of the GATS' impact on developing countries and Mode 4 had been disregarded but the author failed to substantiate this claim. It was also explained that the inclusion of safeguard measures in the GATS does not deter multinationals from engaging in anticompetitive behaviour and the transfer of technology was still to occur. Subsequently, it was claimed that increasing vertical and horizontal integration among multinational tourism service providers was likely to cause a substantial reduction in the market independence of local players. However, no further analysis is provided to illustrate the negative effects of either form of integration to support the veracity of this statement.

Finally, (Suresh 2001) critiqued the Annex proposal particularly its cluster approach acknowledging it would accelerate GATS negotiations and simultaneously withdraw the flexibility which developing countries had regarding negotiations. It was also noted that the Annex included three kinds of sectors that would be related to tourism namely tourism characteristic services, tourism non-specific services and tourism connected services. It was argued that the Annex is wide ranging in its definition of tourism characteristic services covering road transportation, intercity rail, water, nature and wildlife preservation services. (Suresh 2001) also demonstrated that the Annex was silent on the duties of consumers, the rights of host communities and it failed to consider how the GATS supersedes national sovereignty and the decision-making process.

(Lee et al 2002) recognised that there are barriers (non-tariff or general) to international trade in tourism which if eliminated would benefit that sector before illustrating how regional trade agreements and the GATS facilitated this process. Regarding the former (Lee et al 2002: 131) stated “member countries of each regional agreement aim to eliminate all the barriers between them but to protect their markets against non-member countries” and of the latter it was noted “the main goal of GATS is to reduce protectionism between member countries which would be beneficial to all member countries in the long run.” The co-authors clearly illustrated the implications of GATS on tourism by noting that it would grant market access to foreign service suppliers along with other benefits which they would derive. (Lee et al 2002: 131) also asserted “foreign companies will be able to move their staff and base them in a foreign country.” However, they failed to explain that this is only possible if the foreign country has included mode 4 in its schedule of commitments which relates to the presence of natural persons.

Also, it was noted that the GATS classification concerning tourism had implications for that service sector as it was narrow in focus and is inadequate for policy makers and service suppliers. Additionally, they showed how financial services, computer reservations systems services, business services and air transport services were all critical to tourism and had implications for tourism but were not included within travel and tourism services under the GATS.

It was concluded that the GATS had advantages and disadvantages regarding the tourism sector and liberalization of trade in the tourism sector could not only be realized through the GATS but it was the first step. However, GATS could be harmful to consumers and service suppliers alike. Finally, it was argued that liberalization in developing countries may cause suffering to players in the domestic tourism industry when they give up comparative and competitive advantages which are central to GATS. Thus, once services trade became easier because of GATS increased trading and economic growth would result. Furthermore, businesses capable of providing services cheaply and more efficiently stood to benefit. As such, the developed countries would be the most competitive producers of services.

(Paton 2003) examined what impact the GATS had on the provision of international tourism services but focused on Articles 3 and 19 the principles of regulation and liberalization respectively. The purpose was to ascertain whether the GATS can be effective in circumventing hindrances to trade in tourism services. Article 3 deals with regulation which promoted transparency enabling barriers to be overcome through the publication of regulations in a Member's territory informing domestic and foreign service providers of all regulations that have legal effect. Regarding Article 19, it was argued that the application of articles 16 and 17 facilitated liberalization as GATS signatories were mandated to progressively reduce barriers.

Additionally, (Paton 2003) concurred with (Lee et al 2002) and observed that the GATS classification does not have a definition of tourism and that it is too narrow and does not recognise that travel and tourism services embraces other service sectors. It was contended that the World Tourism Organisation's classification would better identify the tourism sector giving Members more certainty when negotiating new commitments. Ultimately, it would further the GATS' aim of liberalizing trade in all services and modes of supply. Furthermore, (Paton 2003: 7) argued the Annex "would recognise the multi-sectoral nature of the travel and tourism industry….." but failed to illustrate the diversity of this sector as did (Suresh 2001).

Finally, (Paton 2003) expressed sentiments regarding Mode 4 similar to (Suresh 2001) and supported the claim from two perspectives. First, (Paton 2013: 6) opined that “trade conditions for Mode 4 tend to be far more restrictive than for any other mode of supply. Many schedules have conditioned the entry of natural persons on the existence of commercial presence, i.e limiting commitments to intracorporate transfers….” (Job no. 2748/Rev. 1 World Trade Organisation Secretariat 19991) Second, it was argued that the difficulties India faced in supplying labour in tourism and travel services to other Member countries due to its trading partners’ regulations concerning qualifications.

(Cornelissen 2009) explored what implications the GATS had for tourism in Africa. The analysis revealed a multiplicity of results as it was argued that vertically and horizontally integrated international tour operators weaken the bargaining position of developing states. What the author failed to explain is how vertical and horizontal integration allows such companies to become powerful enough to negatively impact on the tourism sector of African countries. Additionally, it was noted that the GATS would cause economic seepage because of profit repatriation to developed countries where these international tour operators are based. It was suggested that this inequity should be addressed by developing countries clamouring for a greater share in international tourism ownership by reversing trends towards concentration in the accommodation and tour operator sector. However, (Cornelissen 2009) failed to demonstrate that such inequities could be overcome when African airlines established tour operators and managed or owned hotels thereby become vertically integrated and competing with international tour operators that are vertically integrated.

(Cornelissen 2009) concurred with (Suresh 2002) on two points. First it was contended that the GATS would have a negative effect on the environment and sovereignty of signatories. Reference was made to the GATS and the implications it would have for models of community based natural resource management which are tied to tourism development. If such initiatives received state funding then this would contravene GATS rules. In other words, GATS would supersede regulations implemented in African countries to develop their tourism industries. Second, the author also showed that the cluster approach of the GATS Annex would have reduced the negotiating capacity of developing

countries. On the other hand, it was stated that the GATS could stimulate foreign investment, enhance room stock, increase employment opportunities, lead to conformity to international standards and yield intra African tourism trade and investment.

(Kruger 2009) explored whether tourism liberalization had an impact on growth in the tourism industry of Southern and Eastern African countries. It was found that few barriers to tourism service exports exist which may explain strong growth in the industry. It was also noted that some policy space still exists to enable these countries to restrict foreign suppliers in all sub-sectors except hotels and restaurants which is the most liberalized sub sector of the industry.

(Jensen and Zhang 2013) are the only authors thus far who have undertaken an econometric study on the impact of the GATS on trade in tourism services. They aimed to ascertain if service liberalization had a positive or negative impact on tourism receipts in destination countries. Here, gross receipts were decomposed into a price and an arrival component. Using a Generalised Method of Moments (GMM) technique they discovered that liberalization had a considerable effect on receipts in terms of arrivals and average travel price. Countries which did not liberalize trade in tourism witnessed much lower and negative growth rates in both of the components of receipts.

(Joshi and Malhotra 2014) highlighted various patterns of international tourism before examining how the GATS has had an impact on the trade of tourism services. They illustrate a comprehensive understanding of the subject by explaining succinctly the four modes through which tourism services can be supplied internationally.

Later, they outlined the most important principles under the GATS including Most Favoured Nation, Transparency and Market Access as other authors have done on the issue. The examination of the subject sharpened as the authors detailed how the process of services liberalization occurs with countries being mandated by Article 20 of the GATS to submit a schedule of commitments whether or not it has commitments in a particular sector. Furthermore, they elucidated what is contained within GATS schedules concerning Market Access, limitations on National Treatment and other commitments. Six typologies of limitations found in

Article 16 (2) regarding Market Access were then clearly outlined using examples from the tourism industry.

The character of the paper becomes analytical in nature as it demonstrates how GATS affects the tourism sector. The authors noted that it had the highest number of commitments by WTO members with 86.7% of them making commitments in one of the four sub sectors of tourism. They include hotels and restaurants, travel agencies and tour operator services, tourist guide services and others. However, it was argued that the members' commitments have not undergone any great change since GATS' inception which the authors attributed to apathy on the part of developed countries concerning Article 4 of GATS. This provision accords special preference to developing countries access to distribution and information networks and allows them to liberalise their trade in sectors and modes of supply of export interest to them. At the same time there has been little progress on the Least Developed Countries (LDC) services waiver proposed back in 2011. A decade earlier in 2001 some developing countries forwarded the idea of a draft Annexure on tourism which sought to reduce anticompetitive practices. These developing countries proposed a Cluster Approach whereby all tourism related activities would fall under the purview of the GATS. However, (Joshi and Malhotra 2014) noted the request offer approach is preferred over the Cluster Approach for developing countries which would be forced into liberalizing all tourism related sectors in successive rounds of trade negotiations. This would have serious negative social, cultural and environmental consequences for the developing world.

Additionally, the research acquired a technical perspective whereby pivotal terms such as 'none', 'unbound' and 'partial' that are used in the GATS concerning Market Access and National Treatment are explained. It is the only article on the issue to do so. It was then shown that countries wishing to provide full Market Access and National Treatment in a particular service sector or mode of supply should enter the word 'none' in the specific column of their scheduling. Alternatively, the term 'unbound' is entered in a schedule when a country wishes to remain free or uncommitted in a particular service sector or mode of supply. Finally, the term 'partial' is used when a country wishes to indicate limitations it wants to place on the sector specific column of the schedule alongside horizontal

limitations on market access and national treatment which may already be present.

In rounding up their critique of the impact of the GATS on tourism it was posited by (Joshi and Malhotra 2014) that developed countries are keen on Modes 2 and 3 to attract visitors and foreign investment from abroad respectively. However, they are reluctant to open up Mode 4 for foreigners from the developing world to work in their tourism sector. Conversely, Modes 1 and 4 are of great interest to developing countries as they are enhancing their expertise in technical know-how and such services can be exported to the developed world. Also, the developing countries have a comparative advantage concerning labour.

This review of the literature on the implications of the GATS for the tourism sector shows how it can be viewed as a supranational trade agreement as countries have lost the ability to regulate their domestic tourism industry. Additionally, it was shown that the Annex could have serious negative implications for developing world countries if ever implemented. Furthermore, in some instances authors made claims that needed to be substantiated to strengthen their arguments. Finally, it has been made clear that all of the studies which were qualitative in nature found that the GATS would have negative consequences for developing world countries whilst the only econometric study found the opposite. This was based on the fact that there is a clear difference in research methodologies which influenced the basis on how findings are interpreted.

5.3.3 THE IMPACT OF GATS ON SUSTAINABILITY PRACTICES.

(Perrin 2001) assessed the environmental and social effects of trade in tourism services using the Mediterranean cost of Turkey as a case study. It was concluded that trade in tourism services can have positive and negative impacts on sustainable development. The former relates to economic benefits resulting from increased foreign direct investment, employment opportunities and revenues generated. The latter speaks to issues of leakage of profits to developed countries or to multinational entities whilst the destinations are faced with environmental and social effects. However, it was argued that the economic impacts of liberalization commitments in tourism services were difficult to assess

due to the lack of data at the national and international levels. It was further noted that the links between the liberalization of tourism services and sustainable development depended on infrastructure, regulations and institutions in tourist destinations.

(Hoad 2003) weighed up the advantages and disadvantages of the GATS before considering its impact on sustainability regarding tourism. Concurring with (Suresh 2001) it was argued that market access principles forbade the use of quantitative and qualitative restrictions such as limits or quotas which had be implemented to foster sustainable tourism development. It was also posited that tour operating would be affected by market access but the article failed to point out that this would only occur if the sub-sector had been committed for liberalization. The author further stated that national treatment rules could retard sustainable tourism by eliminating preferential treatment for local service suppliers in the tourism sector. Therefore, sustainable tourism as a developmental strategy premised on comparative advantages which local service providers relied upon would be lost when faced with competition from foreign providers gaining access to markets in destination countries.

(Bendell and Font 2004) synthesised the position of tourism standards in the context of the GATS. This research was akin to that of (Suresh 2001) and (Hoad 2003). It was argued that standards which affected how firms operated within the carrying capacity of destinations could be viewed as being in conflict with market access Article 16. The co-authors also pointed out that several programs implemented by destination countries were characterised by criteria concerning job creation for locals and the use of locally produced materials and food and the support of “green businesses” in the destination. These would be contravening Article 17 on national treatment which mandates treating foreign service suppliers as nationals. In concluding it was argued that standards would only attract the attention of GATS if they were beneficiaries of governmental measures which made them mandatory. Furthermore, it was stated that there was an urgent need for consensus regarding what is best practice for the regulation of sustainable tourism standards.

(George and Henthorne 2007) sought to discover the possible impact of the GATS on sustainable tourism in the developing world. In outlining the obligations under GATS the co-authors recognised that they could either be general or specific in nature. The former include Most Favoured Nation treatment, transparency in regulations, objective, reasonable and impartially administered regulations, administrative review and appeals procedures and disciplines on monopolies and exclusive suppliers. The latter are concerned with market access and national treatment. It was found that GATS was not in sync with the desires of small and medium tourism enterprises from the developing world.

It is evident from the above review that the GATS will have dire consequences for sustainability practices in developing world destinations. This is because governments in developing world countries are now hindered by the GATS from implementing any programs or policies which may benefit indigenous companies. This is in keeping with international trade rules which forbids such practices.

5.3.4 THE LIBERALIZATION OF TRADE IN TOURISM SERVICES – THE NEW ISSUES.

The most recent research on the liberalization of trade in tourism services has been undertaken since 2015 and it covers new subjects. (Petit 2016) investigated the impact of the international openness in tourism services on wage inequality between highly skilled, semi-skilled and unskilled workers. The research focused on 10 OECD member states for the period 1990-2005 and was executed using a cointegrated panel data model and an error correction model to distinguish between the short and long run effects. It was discovered that total international trade significantly increases wage inequality in the long run between highly skilled and semi-skilled workers and between semi-skilled and unskilled workers. Regarding international trade in business services resulted in higher wage inequality between each category of worker skills. Concerning trade in tourism services, this type of commercial activity has a noticeable impact on wage inequality between highly skilled and unskilled workers in the long run with a positive and significant coefficient of 8.814 at the 1% confidence level. At the 10% level when the coefficient is –2.1035 international tourism trade reduces wage

inequality between highly skilled and semi-skilled workers. (Petit 2016) partly attributes to the fact that tourism production is unskilled labour intensive.

In relation to the error correction model the most important finding concerning the nexus between international trade and inequality was for the tourism trade openness variable. This was due to the fact that it is the only openness variable that had an influence on inequality variables.

(Nurse et al 2017) highlighted the contribution of the transport, financial and telecoms service sectors to global value chains in tourism. They argued that tourism's reliance on the aforementioned service sectors yielded global value added when tourism services are supplied internationally via the 4 Modes outlined in the GATS. Regarding Mode 1 it was illustrated that value added is generated through e-commerce activity of tourists purchasing singular or combined elements of the tourism product. It was also recognised that such cross-border mode of services trade was not largely undertaken by developing countries as the economies of scale and scope required for critical mass and global reach were beyond the capabilities of domestic or regional firms. Caribbean Airlines and Sandals Resorts International (SRI) were cited as examples of indigenous regional businesses involved in the tourism sector that engaged in this cross-border mode of supply. The example of the villa rentals industry in Barbados was cited to illustrate how Mode 2 supply 'Consumption Abroad' occurs and how developing countries participate in the inbound side of tourism GVC. Regarding Mode 3 it was demonstrated that the Barbados based and owned Goddard Enterprises has 50 companies in operation across 23 countries with its business principally based on the provision of aircraft catering services. In relation to Mode 4 (Nurse et al 2017) argue that this is an area of the regional tourism industry for which there are very few data. This makes it hard to conduct any analysis on this mode of supply. However, Caribbean nationals do work in the cruise sector but it is estimated that this is less than 1%. Ultimately, it can be posited that the existence of global value chains in the tourism sector is a corollary of the liberalization of trade in tourism under GATS.

In summarizing the literature on the liberalization of trade in tourism services it is clear from the above paragraphs that the academic debate on the GATS trade

agreement is dynamic. Since academics commenced publishing research on the trade agreement the focus of the debate has been constantly changing. Initially it focused on the constitution of the trade agreement before shifting to its implications for the tourism sector and then to its impact on sustainability practices. More recently since 2015 the debate has once again shifted to focus on issues of wage inequality and global value chains. These frequent changes in focus indicate that academics are aware that this trade policy change at the multilateral level can have wide ranging effects given the reach of the international tourism industry.

5.4 THE LIBERALIZATION OF TRADE IN TOURISM SERVICES IN THE CARIBBEAN.

Regarding the Caribbean only, three pieces of research on liberalizing trade in tourism services have been produced thus far. (PricewaterhouseCoopers 2004) SIA of the EU-ACP EPAs focused on tourism sector in the Caribbean region. It was characterised by a 'baseline scenario' and an EPA scenario. The former concerns regional integration under the Caribbean Single Market and Economy and the continuation of the existing trade regime between CARIFORUM and the EU. The latter contemplates comprehensive liberalization of trade in tourism services between the CARIFORUM and the EU and full liberalization for all tourism sub sectors. To assess the economic impacts of the EPA scenario a Computable General Equilibrium approach was applied to Jamaica and Trinidad. Results indicated there would be increases in the production of tourism services of 7.78% and 3.26% respectively under the EPA. Regarding Gross Domestic Product (GDP) increases of .75% in Jamaica and .42% in Trinidad were also predicted. This growth in GDP would spur an increase in government revenue of .34% and .56% in Jamaica and Trinidad and Tobago respectively.

One weakness of the report is that it focused on two islands whose economies do not rely primarily on the export of tourism services as most CARIFORUM countries do. The economies of both Trinidad and Jamaica differ compared to the rest of CARIFORUM as they are characterised by the export of natural resources and tourism services. Since the report focuses on tourism it would have been

better to apply the CGE model to CARIFORUM countries more reliant on the tourism sector which would have facilitated the generalization of results.

(Jules 2005) examined how tourism trade and liberalization fostered sustainable development in St. Lucia within the context of the General Agreement on Trade in Services (GATS)**.** The economic advantages (growth in foreign exchange earnings, GDP, export revenues, foreign direct investment (FDI) and employment opportunities) of multilateral liberalization are outlined. However, it does not include an econometric model which models the impact of liberalization on any of the above advantages which would have strengthened this work.

Additionally, the study acknowledges that small enterprises in developing countries are affected by vertically integrated companies which dominate international tourism. Yet, (Jules 2005) does not clearly indicate how these companies relate to St Lucia's tourism sector. This could have been done using data showing what percentage share of tourist arrivals these companies were responsible for transporting to St. Lucia. Additionally, a claim is made that 55 to 60 per cent of rooms on St Lucia are foreign owned but it is not stated if the owners are vertically integrated companies. Furthermore, the article makes reference to the unfair and anticompetitive practices of these companies but does not give explicit examples.

One weakness of (Jules 2005) study is that it excluded definitions or examples of the modes of supply of services but proceeded to state that FDI is an advantage of tourism liberalization. How are readers to believe this statement without being told that Mode 3 corresponds to commercial presence abroad? Service suppliers enter the domestic markets of trading partners with whom they have signed a trade agreement liberalizing trade in services by exporting or establishing a commercial presence in those locations. By establishing a commercial presence overseas these service suppliers are engaging in foreign direct investment (FDI). Without Mode 3 being explained persons unfamiliar with international trade lingo will be unable to make the connection between Mode 3, tourism liberalization and FDI.

(Ward and Sauvé 2009) documented collaboration between stakeholders in the tourism industry and the Government of Barbados. They examined the market

access gains acquired by CARIFORUM in respect of commitments given by the EU. These are outlined by sub-sector and by mode indicating the number of EU states that have provided full, partial or unbound commitments. This is useful as it indicates areas where potential opportunities exist for CARIFORUM tourism service providers to export their services to the EU market. A quick analysis has indicated that much success was achieved by CARIFORUM countries in most sub-sectors regarding Mode 1 Commitments. Regarding Mode 3 Commitments there was generally a high level of Market Access given across all subsectors. Market Access for Mode 4 Commitments was totally restricted for the sub sectors spa services, catering and hotels and restaurants. Regarding the travel agency, tour operator services and tourist guide sub sectors full or partial market access was granted by EU countries. Across those three sub sectors there were only 7 instances where commitments were unbound as countries did not grant any market access. The authors also argued that the EPA's treatment of tourism as compared to other sectors is superior since the relevant section is characterised by distinct development co-operation provisions in Article 117. The significance of this point is that it indicates the level of importance attached to the tourism sector and the role which development cooperation will play within the EPA.

(Ward and Sauvé 2009) writing on vertically integrated companies cited examples of their anticompetitive practices including exclusivity clauses and tied sales among others unlike (Jules 2005). They also indicated this inspired CARIFORUM governments to insist on the inclusion of disciplines on anti-competitive practices within the EPA which they link to the loss of policy space. They do this by stating that the EC's acceptance of these disciplines may be linked to its own wish to include a Most Favoured Nation (MFN) clause and sector specific disciplines in the EPA. This clause extends any preference granted by CARIFORUM countries to a major trading economy to the EU. A major trading economy is any country or group of countries accounting for more than 1% or 1.5% of world merchandise exports. Essentially, CARIFORUM states are now restricted by this MFN clause when negotiating future trade agreements. (Jules 2005) also recognised the impact which tourism liberalization can have on the policy space of countries making reference to the MFN and national treatment

provisions of the GATS and indicating that governments' ability to regulate the tourism industry is threatened by GATS.

A drawback of this study by (Ward and Sauvé 2009) is that they presuppose that the reader knows how and why the EU and CARIFORUM states came to be negotiating the EPA. Their paper excludes information of the past trading arrangements and the genesis of trade in services. Including such information strengthens the research and it is critical to setting the scene and to guiding the readers. They will then acquire an understanding of how European-Caribbean trade relations developed. Moreover, it will also enable them to make the connection between international trade and the liberalization of trade in services. Last, there is a paucity of statistical data on the Barbados tourism sector and the European tourist market which would illustrate their importance to the island's economy and tourism industry respectively. Finally, the issue of development cooperation was treated cursorily yet it is a major theme within the EPA.

The preceding review indicated several things. First, liberalizing trade in tourism services positively affects the Gross Domestic Product of countries. This observation can possibly explain why countries have been rapidly liberalizing trade concerning their services sectors. Second, (PricewaterhouseCoopers 2004) study is the only one which has attempted to model the effect of the EPA on the tourism sector. Since then no study has actually modelled the EPA's effect on tourism concerning growth in GDP, FDI, export earnings or employment or even tourist arrivals. This has revealed a gap in the literature concerning the EPA's economic effect on the tourism sector in the OECS. Third, tourism is an important economic sector in the Caribbean given its treatment in the EPA. Fourth, tourism liberalization results in the loss of policy space to governments. Fifth, vertically integrated tour operators which dominate the global tourism sector exert great control over the industry which can be detrimental to developing countries.

5.5 TOURISM IN THE CARIBBEAN 2000 TO THE PRESENT

Within the discipline of economics, the concept of liberalization is often associated with other concepts such as competitiveness, development and growth. On reviewing the literature of published articles concerning tourism in the Caribbean since 2000 several things became clear. First, they have focused on the aforementioned concepts as well as tourism demand, the liberalization of trade in tourism services and tourism and services negotiations. The contextual literature on the liberalization of trade in tourism services in the Caribbean is reviewed in section 5.4 of this chapter. Second, the authors employed different methodological approaches in their respective projects. Third, there is a dearth of literature on the liberalization of trade in tourism services in the Caribbean which may be attributed to the fact that it is a new area concerning trade policy development in the region.

5.5.1 TOURISM AS A DEVELOPMENT STRATEGY

(Husbands and Carter 2000) investigated the impact of tourism on human development in the Caribbean. It was discovered that tourism is a key determinant concerning human development in the Caribbean. Furthermore, the majority household expenditure goes towards human development items such as education and food. Women play the leading role in the decision- making process.

(Bishop 2010) examined how Tourism as a developmental strategy in St. Vincent and St. Lucia. They argued that rise of globalization and the loss of preferential access to the EU has forced St. Vincent and St. Lucia to shift tourism to be the main plank of their developmental strategy.

5.5.2 TOURISM COMPETITIVENESS

(Archibald et al 2008) assessed the competitiveness of 22 Caribbean destinations between 1980 and 2002. Using a dynamic tourism gravity model it was found that source market income and relevant prices are significant

determinants of Caribbean tourist arrivals. A new factor, destination income which indicated the level of infrastructural development has been shown to also determine tourist arrivals.

(Craigwell and Worrell 2008) analysed the price competitiveness of the largest Caribbean tourism destinations which was defined as their shares in the overseas travel markets of the US, UK and Canada. Of the variables included in the econometric models used in this study it was found that competitors' prices and their own domestic prices were the most influential variables for countries that depended heavily on the UK market. Also, the Dominican Republic which attracts significant Canadian visitors benefits from the acceleration of Real GDP growth in Canada. Growth rates in the UK are also considered to be the most important determinant of the Caribbean's share of that tourism market. Additionally, changes in the spending power of Americans in Caribbean destinations is the most important factor affecting the share of the US tourism market. A 10% increase in inflation in destination countries yields a decrease in the Caribbean market share of 7%. It was also discovered that non-price factors and market segmentation are critical to competitiveness and price and income effects may be of secondary importance to several Caribbean destinations.

(Bolaky 2011) analysed the key determinants of competitiveness regarding the Caribbean tourism stayover industry for the period 1995-2006. Competitiveness was measured using the share of outbound tourists from Canada, the U.K and the U.S.A. It was discovered that a real exchange rate depreciation could increase tourism competitiveness only in relation to stay over Canadian tourist arrivals. However, British tourists tend to be price insensitive when exchange rate fluctuations occurred. Also reduced stay over arrivals from Canada and the U.K followed increases in transportation costs (airfares) linked to increases in oil prices. Additionally, former Spanish colonies are more competitive than former British colonies. Furthermore, government consumption, trade openness, labour market rigidities and environmental safety factors such as natural disasters and HIV/AIDS prevalence rates negatively affected tourism competitiveness. Conversely, population density, domestic credit to the private sector, gross fixed capital formation in GDP and the number of telephones in use all positively affected tourism competitiveness. Finally, there is no conclusive proof that real

income growth in Canada, the U.K and the U.S.A plays a major role in tourism competitiveness in the Caribbean.

5.5.3 TOURISM AND SERVICES NEGOTIATIONS

(Te Velde and Nair 2005) examined how Antigua and Barbuda, Belize, Dominica, Dominican Republic, Grenada, Jamaica, St. Kitts, St. Lucia and St. Vincent could use services trade negotiations to enhance the inflow of tourism FDI in the context of the Caribbean. They sought to test the assumption that commitments in international trade negotiations would positively affect tourism FDI. Utilising a panel data model which focused on the period 1997-2003 they found that the more GATS commitments in the tourism sector a country made would raise inward FDI as it is a significant and positive explanation for tourism FDI. Conversely, market size variables such as tourist arrivals and real GDP were found to be insignificant explanations for inflows of tourism FDI.

5.5.4 TOURISM AND ECONOMIC GROWTH

(Brida and Fabbro 2009) analysed the contribution of tourism to economic growth in Central America and the Caribbean countries the Bahamas, Dominica, Dominican Republic and St. Lucia and focused on the period 1990 to 2007. Following (Ivanov and Webster 2007) they used the rate of growth of real GDP per capita as a measure of economic growth. This study revealed that the Caribbean country with the lowest percentage of GDP contributed by tourism was Dominica (12.01%) whilst El Salvador and Belize represented the Central American countries whose economies the highest contribution to GDP - 19.32% and 19.06% respectively. Furthermore, in each of the years (1991, 1995, 2000 and 2007) for which data concerning contribution of tourism towards economic activity is provided it was recognised that they were generally characterized by negative or positive growth.

(Lorde et al 2011) investigated the relationship between tourism and economic growth in Barbados from 1974 to 2004 within a multivariate cointegration framework. The study sought answers for the following questions: Does tourism

lead output? Is tourism led by output? Is there feedback between tourism and output? Is the relationship, if it exists long-run or short-run?

It was discovered that there is a long-run relationship between output and tourist arrivals thus increases in tourist arrivals on an aggregate and per capita basis are positively associated with increases in output. This suggests that there is feedback between the two variables. Also, Real Exchange has no influence on aggregate output basis. Finally, when Real GDP per capita is measure of output, real exchange rate has an effect in the long-run. When it increases by 1% tourist arrivals increase by 0.7%. There is also a feedback relationship between tourist arrivals and Real exchange rate in the long run.

(Thacker and Acevedo 2011) analysed the growth experience in Caribbean countries from an international perspective. This research revealed two salient results. One is that tourism is a key contributor to growth but there is room for expansion in many countries. Another is, that growth has been inhibited by considerable expansion in debt. Also, there have been significant increases in Caribbean countries' GDP per capita since the 1970s. However, since the 1990s growth performance has been heterogeneous Caribbean countries have been outperformed by the Eastern Caribbean Currency Union (ECCU) countries.

(Thacker et al 2012) revisited the topic of growth performance in the Caribbean from a cross country perspective examining the effects of tourism and size on growth and output volatility and on productivity and capital accumulation. Regarding the impact of tourism on growth it was found that a 10% increase in tourist arrivals per capita increased economic growth by 0.2 percentage points. The quality and value added of tourism were discovered to be key drivers of economic growth. Also, the small size of countries in the Caribbean inhibited growth. Finally, Caribbean countries do not benefit more from tourism than other countries in the world do.

In relation to the impact of tourism on growth volatility there was also a positive correlation of growth volatility with inflation and government spending and a negative correlation with tourism. Additionally, tourism was found to raise per capita GDP growth and also help to reduce its volatility. Concerning how tourism and size affected growth it was illustrated that the growth rates of output per

worker and capital per worker. Meanwhile, the impact on capital accumulation is larger and is explained by the link of tourism and FDI in the region. Furthermore, the effect of the volume of tourist arrivals on productivity was five times bigger than that from receipts per tourist.

(Apergis and Payne 2012) examined the causal relationship between tourism and economic growth for 9 Caribbean countries covering the period 1995 to 2007. Two hypotheses tourism led growth hypothesis and the economic driven tourism growth hypothesis were tested. Using a panel error correction model it was discovered that there is bidirectional causality between tourism and economic growth. (Pedroni's 1999, 2004) heterogeneous panel cointegration tests revealed a long run relationship between GDP per capita, the real effective exchange rate and international tourist arrivals indicating that there is bidirectional causality.

(Cannonier and Burke 2017) empirically tested the relationship between tourism and financial development within CARICOM member countries and focused on the period 1980-2013. Financial development was measured using 3 of 4 categories developed by the World Bank: depth, efficiency and stability. Meanwhile tourism was measured as tourism expenditure per capita.

Estimates of instrumental variable regressions on the impact of tourism expenditure per capita on financial development found that there is a positive and statistically significant effect of tourism on financial depth and efficiency. Thus, tourism expenditure per capita led to an increase in money supply (both M3/GDP and M2/GDP) and the amount of public sector credit relative to GDP.

In order to overcome the problems of endogeneity associated with ordinary least squares (OLS) regressions a Generalised Method of Moments (GMM) technique was then employed. It was found in most cases that the link between tourism and financial development was constant and positive and the GMM estimates appeared to be larger than those of the instrumental variables results.

In closing, this review of literature concerning tourism in the Caribbean since 2000 it has been shown that research was being conducted on the sectors and issues of an economic nature which is understandable given the economic importance of the sector to the micro states of the Eastern Caribbean. Also, it was demonstrated that academics have not been conducting research on the inter-

relationship between the EPA and tourism in the Caribbean. This surprising given the fact that the EPA was the leading trade agreement being spoken about in the post 2000 period and it has implications for the tourism sector which the leading earner of foreign exchange for many Caribbean countries. Perhaps it may be due to a lack of interest on the part of academics regionally and internationally.

5.6 THE LIBERALIZATION OF TRADE IN SERVICES IN THE CARIBBEAN

The literature on the liberalization of trade in services on the Caribbean region is extremely scant. This may possibly be attributed to the fact that service liberalization is a relatively recent phenomenon of the economic landscape in the region. As such only two pieces of research relating to the issue concerning the region have been uncovered in this exercise.

(ECLAC 2002) produced a report on the implications of the liberalization of telecommunications for the Caribbean. It traced the development of the liberalization process in the region and then examined the implications thereof. This undertaking revealed that there are several advantages to be derived from instituting this policy reform. First, customer would benefit from price reductions especially for long distance calls. Second, there has been growth in the mobile phone, multimedia and network services markets across Caribbean countries. For example, by the mid 2002 Jamaica approximately 900 000 cellular lines were installed and half of them were due to the new player on the market Digicel. Third, it was argued that telecoms liberalization could present opportunities regarding database management, software development and multimedia segments of the information and communications technologies (ICT) market. Fourth, this policy reform could result in structural transformation regarding traditional industries. Thus, for example the tourism industry came to be characterised by online bookings, e-commerce and enhanced managerial processes all because of increased use of ICT in light of telecommunications liberalization.

Apart from the above benefits the (ECLAC 2002) report stated that the biggest influential factor to the success or failure of liberalization is regulation. Several issues which can negatively impact liberalization are examined including abuse of dominant position, transparency of operations and licencing. The Report

further recognises that the success of liberalization can be enhanced through the implementation of consumer protection policy. Capacity building and infrastructural development are also required for the success of regulation. Thus, a human resource development programme should be implemented as soon as possible which facilitates the training of persons to serve the telecommunications industry in the future.

(Sabune 2008) conducted research on the liberalization of financial services under the EPA and the implications of the global financial crisis. The events leading up to the global financial crisis are traced before the paper outlines the main commitments of the financial services chapter of the EPA. It also describes policy responses implemented by developed countries in light of the global financial crisis which have been described as trade distorting. The analytical part of the paper links the EPA services provisions and regulatory interventions adopted by developed countries because of the financial crisis. There, (Sabune 2008) illustrated that the EPA can have deleterious effects on CARIFORUM states by providing several relevant examples.

First it was argued that the ability of developing countries entering into an EPA to modify their financial services commitments as a policy response to a financial crisis is based on the 'prudential Carve-out' found in Article 104. (Sabune 2008) acknowledged the existence of a similar provision in the General Agreement on Trade in Services (GATS) which has been generally interpreted by the WTO membership. This means that any type of measure applicable to the financial services sector is covered by the carve out. The question was then raised whether or not a similar interpretation will be accorded to the 'Prudential Carve out' by the parties to the EPA. If a GATS type interpretation is agreed by both CARIFORUM and EU states then the former can use Article 104 when taking action which may be in conflict with their financial services commitments. If there is no agreement, then the actions taken may be a source of contention.

Second, it has been contended that the EPA can negatively affect the financial stability in developing countries based on the fact that Article 106 refers to national treatment concerning new financial services. (Sabune 2008) stated that this results in the loss of policy space concerning domestic regulation and the

provision of preferences to domestic providers of new financial services. Ultimately, it will force them to compete with European providers of new financial services which the author claims could stymy domestic infant growth of these service providers in CARIFORUM states. Furthermore, it has been stated that new financial services are complex in character and have proven problematic for regulators in developed economies to grapple with. The article forwards the view African and Pacific countries should consider their abilities to oversee these new financial services before opting for liberalising financial services under an EPA. This is because at the point of publication regulation was only just being developed.

Third, it has been shown that a range of financial services activities which have been liberalised under the EPA pressurises CARIFORUM countries to undertake obligations in market access and rules in several areas. They are Government Procurement, Competition Policy and Investment which (Sabune 2008) stated are prerequisites for the development of a strong regulatory framework for the financial sector and also to circumvent instability. It was further recognised that the inclusion of Government Procurement, Competition Policy and Investment in the EPA were rejected as negotiating issues at the multilateral level because developing countries felt their sovereignty and right to regulate would be compromised. This is commonly referred to as the WTO Plus nature of the EPA.

Fourth, (Sabune 2008) briefly mentions the Most Favoured Nation clause as a negative effect of the EPA noting that it may have strong implications for south-south trade. In another section it specifically says that the clause might refrain future trade with emerging economies like India, Brazil and China. However, the article is lacking in any legal analysis which would have strengthened this argument.

In the final analysis this article outlined the genesis of the most important economic cataclysm in the post war period before illustrating how some developed countries dealt with the consequences in their respective jurisdictions. It then illustrated how the EPA's financial services provisions could negatively impact developing countries if they were to implement policy responses identical to those used by the developed countries in light of the global financial crisis. The

arguments forwarded were clear, sound, constantly referred back to the EPA, some core concepts of international trade law as well as the policy responses of the developed countries. It was illustrated how such initiatives conflict with the EPA and now limit the options opened to CARIFORUM states. The article serves as forewarning concerning the liberalisation of trade in financial services to policymakers in Africa and the Pacific countries which are yet to sign full EPAs with the EU as has the CARIFORUM group of states.

From the above paragraphs in this section on trade in services it is clear that there is a paucity of empirical research on the issue as it pertains to the Caribbean which is perplexing given that the OECS EPA signatories rely heavily on the export of services. The question which needs to be answered is why is this the case?. One may argue that it is because the liberalisation of trade in services in the Caribbean is in its embryonic stages of development having recently debuted on the economic landscape in the region. Others may say that the deficit in published academic material on the subject may be a corollary of a lack of interest on the part of academics and the availability of data to undertake meaningful studies.

5.7 FOREIGN DIRECT INVESTMENT IN THE EASTERN CARIBBEAN

The literature on foreign direct investment in the Eastern Caribbean covered several issues which are categorised under the following headings.

5.7.1 AGRICULTURE

(Pilgrim and Iyare 2008) studied the effects of foreign direct investment on agricultural sector productivity, market size, macroeconomic performance, infrastructure, competitiveness, financial performance and governance in Dominica, Grenada, St. Lucia and St. Vincent covering the period 1970 to 2006. Barbados was used as a control country regarding regional inflows of FDI. The study featured panel data unit root and Johansen cointegration tests and the Engle-Granger correction model to test for causality. It was found that causality runs from FDI to infrastructure. No causality was observed in either direction for

market size, competitiveness, productivity and governance. However, causality was recognized to run from FDI to macroeconomic performance.

5.7.2 SUSTAINABLE DEVELOPMENT

(Goss and Conway 1992) examined how the OECS were pursuing development goals of export-oriented industrialisation propelled by foreign direct investment in the manufacturing sector. The analysis focused on the sustainability of this form of economic development. It is shown that FDI fails to contribute significantly to GDP and the balance of payments due to the fiscal policies of governments. The authors further argued that inducements such as repatriation of profits, tax holidays and duty-free entry of capital and raw materials can attract international capital, but they do not draw it into the local economies. Conversely, foreign direct investment does. Moreover, industrialisation premised on FDI results in the upskilling of the local workforce given the presence of technology and capital and the economy is infiltrated. These less tangible beneficial elements are referred to as structural changes in the areas of industrial infrastructure, technology and information transfer, domestic business and politics and the physical environment. (Goss and Conway 1992) enquired how long and in what form would foreign direct investment flow to the Caribbean?

It was concluded that this type of export orientation could run through to the end of the millennium if managed well. However, there were concerns about the sustainability of FDI influenced manufacturing in the OECS regarding its ability to engender domestic innovation and expansion. Ultimately, it was contended that this would occur where active government intervention mitigated negative externalities.

5.7.3 TAX CONCESSIONS

(Chai and Goyal 2008) compared the costs of concessions in terms of revenues forgone with the benefits associated with increased foreign direct investment in the ECCU countries. It was recognised that forgone tax revenues range between 9.1% and 16% of GDP thus raising the question of whether the costs are justified

by benefits obtained from granting tax concessions. Regarding incentives and foreign direct investment regression analyses indicated an absence of a relationship between the two variables. The incentives index is insignificant in all econometric specifications including different dependent variables for FDI

5.7.4 THE IMPACT OF FOREIGN DIRECT INVESTMENT FLOWS

(Williams and Williams 1999) analysed trends in FDI flows to the ECCB region and evaluated the impact of them on several macroeconomic aggregates, investments, savings, imports, exports and growth utilising a system of equations where adjustments for lags were performed within each panel. They found that inflows were positively related to investment, savings and imports. Foreign investment was also found to have a positive but insignificant relationship with imports. It also significantly impacted exports of goods and services but the estimated coefficient was not of the expected sign.

(Cannonier et al 2007) investigated empirically the relationship between foreign direct investment and economic growth in the ECCU. Four dynamic panel data models were estimated with FDI, imports, exports and GDP per capita being used as dependent variables. Regarding empirical results for FDI, exports and imports are statistically significant and positively influence FDI since a 1% increase in exports and imports is associated with increases of 14.4% and 29.4% respectively in FDI. Concerning the empirical results for the FDI-exports equation it was found that FDI negatively influenced exports. A 1% increase in FDI inflows was associated with a 0.1% decrease in exports. The empirical findings for GDP indicated that a 1% increase in output equated to a 0.2% increase in exports of goods and services. The import equation results demonstrated that a 1% increase in FDI inflows would yield a 0.04% increase in imports. Domestic output had a positive and statistically significant impact on imports as a 1% increase in output per capita resulted in a 0.1% increase in imports. It was also revealed that the depreciation of the exchange rate had a negative impact on imports. Last, the output equation illustrated that FDI inflows had a positive and statistically significant impact on real per capita GDP in the ECCU. A 1% increase in the aforementioned inflows, resulted in 0.1% increase in per capita GDP.

This review process demonstrates that a situation similar to that concerning the literature on the liberalization of trade in services in the Caribbean is also present regarding academic publications on foreign direct investment in the Eastern Caribbean. There is very little published on the topic as it relates to the OECS sub-region which raises the question of why? Again, it may be due to the lack of interest on the part of academics or because the Eastern Caribbean is not a major recipient of foreign direct investment inflows when compared with other geographic regions of the world.

5.8 TOURISM RELATED FOREIGN DIRECT INVESTMENT IN THE CARIBBEAN

The issue of foreign direct investment in the tourism sector first attracted the attention of academics when (Dunning and Mc Queen 1981) pioneered research in this area. They focused on the international hotel industry when they sought to apply Dunning's Eclectic theory to that sub-sector of the tourism industry. Since then other researchers have also focused on the international hotel sector. In addition to this, other academic research has focused on the effect of foreign direct investment in tourism in countries spanning the globe in Asia, Europe, North America, the Pacific and Southern Africa.

However, very little academic research has been undertaken on the subject in relation to the Caribbean which is the most tourism dependent geographic region globally as Table 10 above indicated. Hence, the rest of this chapter section focuses strictly on the research regarding tourism related foreign direct investment in the Caribbean and it is categorised under the following themes.

5.8.1 THE EFFECTS OF POLICY IMPLEMENTATION

The effects of policies implemented by governments in the Caribbean have had an impact on the inflows of tourism related foreign direct investment. This sub section examines how the implementation of trade and tax policies in the Caribbean has affected the inflows of tourism foreign direct investment.

(Te Velde and Nair 2005) examined whether and how developing countries can utilise services negotiations – when implementing new trade policy – as a platform for increasing the amount of inward foreign direct investment. The authors focused on the tourism sector in the Caribbean. A simple foreign direct investment regression model using panel data for the period 1997-2003 featuring standard explanatory variables and other variables was utilised to measure the degree of GATS commitments and domestic regulations in 9 Caribbean countries. Foreign direct investment flows were regressed on market size (tourist arrivals), domestic regulations and GATS. A significant and positive association between foreign direct investment flows and GATS commitments is reported. Consequently, it was thought that involvement in GATS services negotiations is a good way of attracting tourism foreign direct investment. However, no significant relationship is detected between tourist arrivals and foreign direct investment flows.

Regarding the effects of implementing tax policies (Van Parys and James 2010) researched the extent to which tax incentives had been effective in attracting foreign direct investment in the tourism sector in the Eastern Caribbean Currency Union (ECCU). Their analysis focused on seven ECCU member countries for the period 1997-2007 except Montserrat because of a lack of data on tourism foreign direct investment. A major change occurred in Antigua and Barbuda in 2003 when corporate income tax exemptions for tourism companies were extended from a minimum of five years to a maximum of twenty-five years. This change facilitated the evaluation of a policy experiment using the differences in difference methodology to assess its impact. The results of this study indicated that tourism investment in Antigua and Barbuda increased after 2003 significantly more than investment in the other six ECCU member countries. Even when controlling for the effects of tourism investment resulting from the organization of the Cricket World Cup in 2007 in five of the countries including Antigua and Barbuda, the results hold.

From the preceding literature review, it is evident that inflows of tourism related foreign direct investment can also be influenced by the public policy decision-making process. Thus, the implementation of new tax and trade policies did result in positive consequences for the countries examined in the above studies. In sum,

policy instruments are available to the political directorate in countries as tools to influence the level of inflows of foreign direct investment to the tourism sector in countries globally. When used creatively, they can give countries competitive advantages over rivals which are also seeking to attract investment from overseas.

5.8.2 TOURISM RELATED FDI IN CARIBBEAN SMALL ISLAND DEVELOPING STATES

According to the 2007 Report of the United Nations Conference for Trade and Development (UNCTAD) entitled FDI in Tourism: The Development Dimension numerous developing countries including some located in the Caribbean utilise the tourism industry to propel economic growth and human development. These countries which also fall into the Small Island Developing States (SIDS) category are able to develop economically by relying on foreign direct investment in the tourism sector which generates employment for nationals and much needed revenues for governments. The Report also noted that there is a paucity of empirical research concerning the extent of tourism related foreign direct investment in the world economy or its overall impact. However, some research on tourism related foreign direct investment in the Caribbean has been undertaken and these articles are reviewed below.

(Barrowclough 2007) presented evidence from a two-year study undertaken by UNCTAD which focused on a global survey of transnational hotel groups operating in developing countries and in-depth case studies of domestic and international investment in tourism. This paper found that tourism and tourism foreign direct investment to developing countries especially Small Island Developing States (SIDS) including many in the Caribbean has been growing rapidly and the trend is likely to persist. This is a result of expansion plans of hotels already operating in developing countries, the growth of southern based transnational corporations and increasing south-south investment. Also, while developing countries have become open to attracting foreign direct investment many lack the policies to assist them in capitalising on the opportunities.

Additionally, they must shoulder responsibility in developing the domestic side of their respective industries to meet international expectations.

(Moore and Craigwell 2008) investigated the relationship between foreign direct investment and tourism in small island developing states (SIDS) by applying causality panel methods. They used the approach of Holt-Eakin, Newey and Rosen (1988). It was noted that testing for causality in a panel data framework is preferred to the normal time series approach as it improves the efficiency of the tests and increases the number of observations and degrees of freedom. The results of this paper indicate that there is a bi-directional causal relationship between FDI and tourism concerning 7 out of 21 of the countries studied. Six of them - Aruba, the Bahamas, Barbados, Dominican Republic, Jamaica, Trinidad and Tobago – are in the Caribbean with Papua New Guinea being the seventh country. This bi-directional relationship is strongest in all the above Caribbean SIDS except Trinidad and Tobago with no explanation being offered.

In all seven jurisdictions there is a symbiotic relationship between the two variables as foreign direct investment generates greater demand for tourism and tourism stimulates inflows of foreign direct investment. The relationship runs mostly from foreign direct investment to tourism. This evidence suggests that the SIDS should actively encourage greater foreign investment in their local industries which provide investment funds the country might not be able to generate on its own. It should be noted that there is also a causal relationship for every SIDS under investigation. These results demonstrate that foreign investors provide the capacity (hotel rooms and attractions) which these countries lack, this in turn stimulates tourism demand allowing them to host visitors.

(Williams and Deslandes 2008) aimed to discover what factors motivated foreign direct investment in the hotel sector of Jamaica, a small island developing state. It drew on qualitative analysis of data acquired from face to face interviews with hotel managers, government policy makers and ambassadors from investing countries. The existing theories concerning foreign direct investment were used as the conceptual framework. The research found that foreign investors from the hotel sector chose to locate in Jamaica for the following reasons. First, they sought to acquire control of the host country market by utilising advantages

developed in their domestic market. Second, eliminating competition and maximising profits was one of their chief purposes. Third, strong price competition in the home market and a subsequent loss of competitive advantage forced some firms to locate where the input costs are lowest. This was especially true concerning Spanish investors. Fourth, retaining greater control over the brand image and quality of the hotel product also drove foreign investors to enter the Jamaican hotel market. Fifth, location specific advantages such as Jamaica's proximity to the United States market also served as an impetus to enter the island's hotel sector.

Apart from the preceding academic articles the Economic Commission of Latin America and the Caribbean (ECLAC) 2015 Report contains a small section on tourism FDI. There it is indicated that this type of investment usually consists of large-scale projects. It states that there are varying types of accommodation based on the types of tourism in the region. Within the accommodation sector of the industry there has been a continuous change in what has been offered to tourists. Initially the countries of the region concentrated on mass tourism and consequently many hotels were built. As consumers' preferences changed the all-inclusive concept was then promoted vigorously by many regional destinations. Since then the focus has been on constructing integrated hotel and real estate complexes, full-service hotels and 'all inclusive' resorts, time share units, golf courses and other leisure facilities such as marinas. These high-end tourist facilities strategically target high net worth individuals who can afford such amenities.

Additionally, ECLAC's Report notes there has been a surge in non-stay tourism foreign direct investment as some regional ports have been improved significantly and there have also been substantial infrastructural improvements concerning access following the construction of new airports in Antigua and St. Vincent. Yachting and marina facilities have also been improved, constructed or are undergoing construction in St Lucia, St. Kitts and Barbados. Auxiliary services such as restaurants and tour services have also benefitted from foreign direct investment. but this is much more limited than what the accommodation sector attracts.

Currently, there is a great diversity of countries whose nationals have invested in the tourism sector in the Caribbean. This sphere of economic activity is no longer dominated by Americans, Canadians and English. Within recent years foreign investment has originated from the Netherlands, Norway, Switzerland, Taiwan, and the United Arab Emirates. Foreign direct investment has also been received from intra-regional investors from Jamaica and Trinidad. Since 2000 China has become a major investor in the region's tourism industry as some Chinese banks have provided financing for tourism projects throughout the Caribbean.

The review of the literature revealed that there is a paucity of research focusing on tourism-related foreign direct investment in the Caribbean. However, the articles reviewed in this section have demonstrated that there is a healthy relationship between tourism and foreign direct investment in the Caribbean. In view of this economic policy makers in the Caribbean should pay careful attention to international and regional events which can negatively affect inflows of foreign direct investment to the sector and also economic growth.

5.9 TOURISM DEMAND IN THE CARIBBEAN.

Reviewing the literature on tourism demand in the Caribbean has illustrated that it covers a diversity of issues which can either positively or negatively affect tourist arrivals to the region. It can be classified as economic, economic non-price or non-economic in nature. Appendix 8 below illustrates some of the non-economic studies which have been undertaken thus far on tourism demand in the Caribbean.

In what follows the literature review focuses solely on academic research pertaining to the economic determinants of tourism demand (income and price). This is because they are the key variables that are used in studies on demand analysis. They will be included in the econometric model later in the chapter alongside other variables including the EPA. The purpose is to ascertain what effect if any liberalizing trade in tourism services - proxied by the EPA - has had on European tourism demand for the OECS EPA signatories for the period 1997-2013.

(Rosenweig 1988) constructed a three level CES model and estimated the effect of real exchange rates on competition for tourism earnings. The analysis focused on relative price competition and estimated elasticities of substitution among tourist destinations within and between regions. Mexico and southern Europe represented by Spain and Greece were the regions viewed as competitors of Caribbean countries. Destinations included for the U.S market are Spain, Greece, Mexico, the Bahamas, Jamaica, Puerto Rico and the Netherlands Antilles. The worldwide market includes Mexico, Jamaica, Puerto Rico, Barbados and the Dominican Republic.

The research briefly acknowledges that the countries being studied had fixed exchange rate pegs to the US dollar and they engaged in competitive devaluations. This was because the US dollar had appreciated in the early 1980's leading to overvalued pegs and ultimately these destinations became uncompetitive losing market share. Subsequent to estimating the aforementioned econometric model it was discovered that elasticities concerning the Caribbean are very high; 1.33 for visitors from the United States and 2.45 for visitors from the rest of the world.

(Carey 1991) estimated international tourism demand for Aruba, the Bahamas, Dominica, St. Lucia and St. Vincent from the USA, the UK, Canada, the Caribbean, Colombia, France, Germany, the Netherlands and Venezuela. This study discovered that income, distance and promotional expenditure were all highly significant determinants of tourism demand. Transportation costs and travel time were also found to have a high level of significance on tourism demand.

In estimating tourism demand for Barbados from the United States, the United Kingdom, Canada and other European markets (Worrell et al 1998) utilised the Seemingly Unrelated regression method to execute their study. It extended previous studies of demand focusing on the Caribbean by incorporating supply factors such as unit labour cost, hotel room occupancy rates and interest rates in their econometric analysis. The study was characterised by a system of 5 equations (one supply and four demand).

The results showed that unit labour costs were the principal factor affecting prices whilst interest rate effects were trivial and insignificant. Also, the elasticity of demand by British tourists with respect to income changes is 4.2 and the relative price of tourism has a large effect on their demand. The elasticity of demand in relation to real GDP in the US is the most significant determinant. Regarding Canadian visitors, real income of elasticity of demand was found to be positive with a magnitude of 2.6. Lastly, demand by other European visitors premised on the growth performance of those countries which converge on German growth. Thus, the real GDP of Germany was used as a proxy in this case. It was discovered that the elasticity of demand in this regard was 4.6.

Relying on quarterly data from 1968-1997 (Greenidge 2001) forecasted tourist arrivals to Barbados from its main source markets Canada, the United Kingdom, the United States and Other (Europe) using Structural Time Series Modelling. The results indicated that elasticity of demand regarding real GDP in the USA was the only significant explanatory variable. A 1% increase in real income in that country resulted in a 2.26% increase in American tourist arrivals. Similarly, real income was found to be the only significant explanatory variable concerning UK tourism demand. In relation to the Canadian market real income elasticity of demand was recorded at 3.13. Additionally, the price of tourism was considered to be marginally significant with a low elasticity of -0.18. Regarding demand from other parts of Europe which was proxied by German arrivals the elasticity of demand was found to be significant at the 5% level with a value of 0.96. Relative prices were also found to have had a significant effect on demand with an elasticity of -0.3.

(Croes and Vanegas 2005) examined determinants of international tourism demand to Aruba from its 3 primary source markets – the United States, the Netherlands and Venezuela for the period 1975-2000. Their study was estimated both double log linear and linear functional forms and utilised the Box Cox statistical method to ascertain which functional form was more appropriate. Additionally, the study was characterised by dynamic modelling featuring the inclusion of a lagged dependent variable in the models. It was found that price and exchange rate were significantly more important determinants for Venezuelan tourists than American or Dutch tourists. Furthermore, the degree

of responsiveness concerning demand for Aruban tourism emanating from a change in income ranged from 1.43 for the United States to 1.82 for Venezuela to 2.52 for the Netherlands. Finally, the study showed that tourist exports were relatively price inelastic which the authors thought could be exploited by tourism policy makers in Aruba.

Using dynamic panel analysis (Maloney and Rojas 2005) contributed to the literature on tourism demand by studying the determinants of tourist flows to 29 Caribbean destinations from 8 source countries for the period 1990-2002. The Generalized Method of Moments (GMM) estimation was used and they found that income and price elasticities are substantially greater than those found in the literature. Equally important, the estimates of income elasticity indicate that tourism is income elastic and consequently is a categorised as a luxury good.

(Sahely 2005) estimated international tourism demand for Anguilla, Antigua and Barbuda and St. Kitts and Nevis from the United States, Canada, the United Kingdom and the Caribbean for the period 1990 to 2003. The study was characterised by a series of equations where both stay over tourist arrivals and visitor expenditure was used as the dependent variable. The independent variables were income, price, transport price, substitute price and a dummy variable was included to capture the effects of hurricanes on demand for travel to these microstates.

When tourism demand was measured using stay over arrivals as the dependent variable American demand for travel to Anguilla was discovered to be inelastic. In relation Antigua a positive significant coefficient indicated that British visitors to Antigua and Barbuda respond to price levels in substitute destinations. A negative significant coefficient for the same variable indicates that Canadian visitors view substitute destinations as complementary destinations. Regarding St. Kitts all coefficients for American visitors were significant using both the relative price and real exchange rate variables. Demand for travel there by Americans is income elastic but price inelastic when prices are measured by transport cost and substitute prices. Meanwhile, British tourists were found to be sensitive to income and exchange rate changes. Additionally, visitors from the USA, Canada and the UK are responsive to price level in substitute destinations.

When visitor expenditure is used as the dependent variable, international tourism demand for Anguilla is inelastic o changes in income and price as measured by transport costs. Similarly, the same is true concerning demand for Antigua and Barbuda but only with respect to income. However, when used in the case of St. Kitts and Nevis demand is elastic to changes in income and tourism prices as measured by the real effective exchange rate and inelastic to changes in transport cost measured by oil prices given their significant coefficients. The overall findings of the study concluded that visitors to Antigua and Barbuda are most sensitive to income. Visitors to St. Kitts and Nevis are most sensitive to tourism price followed by income. The Bahamas, Barbados, the Dominican Republic, Jamaica and Mexico as a group is considered as a substitute destination for travellers to St. Kitts and Nevis. Meanwhile, visitors to Antigua and Barbuda are most sensitive to income whilst British and Canadian visitors are most sensitive to substitute to Antigua and Barbuda. Regarding Anguilla its visitors are most sensitive to price and British visitors are most sensitive substitute destinations to Anguilla.

(Tsounta 2008) investigated the determinants of tourism demand in the Eastern Caribbean Currency Union focusing on the period 1979 to 2005. Demand side factors such as income in the main trading partners and relative prices significantly affects tourism arrivals regarding the ECCU. Since income elasticity is above one (1.5 in this case) this indicates that tourism is a luxury good. Also, when recessions are present in source countries it means that tourist arrivals and the economies of the ECCU are impacted negatively. Regarding supply side factors it is found that foreign direct investment and the number of airlines flying into destinations are also important determinants of tourist arrivals. It is noted that when more airlines fly to a destination, tourism arrivals can be expected to increase given greater accessibility to the destination and because of increased public awareness arising from advertising campaigns of airlines. Tourism demand is also influenced by price considerations. It was acknowledged that a decline in the competitiveness of the ECCU in relation to their competitors has a large negative impact on tourism arrivals. Furthermore, it was unexpectedly discovered that oil price was used as a proxy for transport cost did not have a strong impact on tourist flows to the ECCU.

Other factors such as shocks including weather systems like hurricanes and unstable situations like wars are also very influential concerning tourism demand. Finally, given their dependence on developed countries for tourists it is realised that the ECCU are vulnerable to economic downturns in the source countries. This is due to the synchronization of trading partners' business cycles. It is suggested that diversifying tourism markets and the tourism product could dampen vulnerability to shocks originating in source countries.

(Jackman and Greenidge 2010) utilised Structural Time Series Model (STSM) approach to model tourist arrivals to Barbados. They sought to ascertain if inferences made in 2001 still held. Regarding tourism demand from the USA it was found that Real GDP and prices were statistically significant. A 1% change in real income in the USA led to 1.45% increase in arrivals from the USA and a 1% point increase in relative prices led to a decline in demand by 0.90%. In relation to the United Kingdom Real GDP was the only significant explanatory variable and income elasticity of demand is 0.53 compared to 1.51 in (Greenidge 2001). This suggests that arrivals from the United Kingdom became less sensitive to changes in GDP over time. Additionally, demand from Canada was mainly influenced by the explanatory Real GDP which had an elasticity of 1.27 which is smaller than 3.13 as reported by (Greenidge 2001).

Research undertaken by (Romeu and Wolfe 2011) measured the impact of changing economic conditions in OECD countries on tourist arrivals to countries or destinations in Latin America and the Caribbean. The model of consumption of tourism services, other goods and services and labour disutility serves as the foundation of the empirical analysis. It combines the monopolistically competitive framework based on (Dixit and Stiglitz's 1977) preferences with the gravity model of (Anderson and Van Wincoop 2003). It was found that a destination whose costs are 1% higher than the rest of the Western Hemisphere can see tourist arrivals decline by 1.2%-1.6%.

(Onafowora and Owoye 2012) estimated a series of demand models for the Bahamas, Barbados, Jamaica and St. Lucia concerning demand from Canada, Germany, the UK and the USA using annual data for the period 1970-2004. They used the Auto Regressive Distributed Lag (ARDL) Bounds Test to establish

whether there was cointegration between tourist arrivals, per capita income, bilateral exchange rate and transport costs. Long run and short run relationships were estimated. Regarding the former, it was discovered that

(1) Income elasticities were greater than 1 and tourist considered tourism demand to Caribbean destination as a luxury good.
(2) Tourists from all source markets are very responsive to changes in income.
(3) The cost of travel has a significant and negative impact on Canadian tourists' demand for travel to the Caribbean destinations.
(4) There was a long run relationship between tourist arrivals and the above determinants. This was reconfirmed by the significant and negative error correction terms in all destination/origin pairs concerning the short run coefficients of an ARDL equation used in the study. Also, the coefficients of the tourism price variables illustrate that international tourism demand to these Caribbean islands is price inelastic.

In relation to the latter the following results were discovered

(1) 28%, 61% and 97% of the Bahamas/Germany, Barbados/Canada and St. Lucia/UK tourist arrivals disequilibrium is corrected in one year following a shock to the system.
(2) Taste formation of tourist preferences have a positive and statistically significant effect on international tourist arrivals.
(3) The coefficient of the income variable was positive and statistically significant thus visitors regarded the tourism product as a luxury.
(4) The price elasticities are negative and statistically significant in the models concerning Bahamas/Canada, Barbados/UK and St. Lucia/USA. They each have a positive sign indicating that tourism demand responds to price.
(5) Travel costs reduce tourist arrivals in the short run.
(6) Finally, special events such as the 9/11 terror attacks yielded increased visitor arrivals from the USA to St Lucia by 10% in 2001. The Iraq war led to increased visitor arrivals from Canada and Germany to Barbados by

25.4% and 37.7% respectively, but reduced visitor arrivals from the USA to St. Lucia by 6.5%.

(Mwase 2013) considered the main factors influencing tourism flows concerning 31 small island Caribbean economies from 12 sources countries during the period 1996-2005. The findings of this study indicated that tourism flows from the source markets to the Caribbean are income elastic except those from Spain and the United States. Country pairings were organized to estimate tourism flows from source country to host island. This facilitates capturing the particularities of the various host country products. Several factors affecting tourism flows such as real exchange rate movements, real income in tourism source countries, limited air access, crime and small hotel stock capacity are outlined. It was noted that tourism flows appear to be directly related to greater accessibility but inversely related with crime except in the case of Grenada and St. Kitts and Nevis. Ultimately several discoveries have been made through this study. First, cheaper destinations which have greater hotel room capacity tend to receive more tourists. Second, tourist flows in islands with a 1% more depreciated bilateral real exchange rate movements tend to be 0.19% higher than in other islands. Third, islands with 1% higher number of rooms tend to receive about 0.9% more tourists suggesting that islands with more capacity are more competitive. Fourth, countries with a 1% higher GDP per capita tend to have fewer tourists travelling to the Caribbean. The significance of some factors is considered on an individual basis to determine how country specific factors affect the results. Thus, the following have been noted.

(1) The impact of increases in hotel capacity on tourism arrivals varies across countries. It has a statistically negative impact on tourism flows to Grenada and St. Kitts and Nevis and no impact to the other ECCU states.

(2) Regarding homicides an increase in its impact also varies across the countries being examined. Murders have a statistically negative impact on arrivals to St. Lucia but none concerning arrivals to Antigua and Barbuda, Dominica and Grenada.

(3) A real exchange rate depreciation has a significant positive impact on tourism flows with price elasticities ranging from 0.39 to 1.34%. It is greater than unity for the more mature ECCU destinations – Antigua and St. Lucia. An increase in real income per capita in source markets does not statistically affect tourism flows except in the case of Grenada and St. Vincent.

(La Framboise et al 2014) researched what attracts tourists to the Caribbean and determine whether this has changed since the global financial crisis, and how the nominal cost of a visit to a Caribbean country compares with a beach holiday in other parts of the world. They focused on the period 2000-2013 for 16 Caribbean countries and found that price and income factors significantly impact tourist arrivals and expenditure. Regarding the price factor, a 1% appreciation of the tourism weighted real exchange rate is associated with a 0.16% decrease in arrivals and a 0.1% decrease in tourism expenditure. Additionally, price elasticity is found to be statistically insignificant for high end destinations. In respect of the income factor a 1% increase in tourism weighted unemployment rate translated into a 2.1% decrease in arrivals. Concerning supply factors the number of airlines has a statistically positive impact on arrivals and expenditure. However, the opposite result obtains regarding hotel room stock on tourism arrivals to, or expenditure in the region. This relates to both higher end or lower cost destinations. Finally, hurricanes and the September 11th terrorist attack are reported as also having had significant and negative impacts on tourist arrivals and expenditure.

More recently, (Lorde et al 2016) modelled tourism demand for 18 Caribbean countries from 4 source markets Canada, Europe, the Caribbean and the United States. The study was enhanced through the application of Linder's hypothesis, characterised by dynamic panel data modelling and employed a gravity model. (Lorde et al 2016: 947-948) noted that "Linder's hypothesis is stated in terms of preference similarity or similarity in demand structures and demand patterns, which is typically assumed to be associated with a common income level, the more similar are per capita incomes between two countries, the greater are the bilateral trade flows."

Also, this study examined how differences in climate between countries (climate distance) could have an influence on tourism demand. The results of this study were as follows. First, a 10% rise in incomes in source countries resulted in rises of international arrivals between 2.2% and 2.9% in the short run and between 5.5% and 7.3% in the long run. Second, arrivals decreased by approximately 0.5% and 1.5% in the near term for every 10% rise in transport costs. Third, destination population elasticities are negative implying that the Caribbean is less able to supply tourism services when as it experiences population growth. Fourth, both the own price and substitute price are significantly negative. Regarding the former for every 10% increase in destination prices arrivals fall by approximately 2.5% in the near term. In relation to the latter short run arrivals to the Caribbean decline by 1% for every 10% increase in the relative price of the destination to its competitors. Fifth, climate distance elasticities revealed an increase in arrivals of between 0.1% and 0.3% for every 10% increase in climate distance in the short run and 0.3% and 0.8% in the long run.

In undertaking this review of empirical literature regarding tourism demand in the Caribbean several things became clear. First, it is evident that demand analysis can be executed using a variety of econometric modelling techniques. Second, tourism is a very fickle industry. Tourism demand is affected by other factors apart from income and price including economic conditions in source markets, hurricanes, terrorist events and supply side factors such as hotel room stock and the number of airlines serving a destination. Third, most tourists to the region originate in the metropolitan countries.

5.10 CONCLUSION

This chapter reviewed several sets of literature which are deemed to be important to the dissertation. The exercise showed that the literature on the EPA is largely quantitative in nature regarding research which focused on trade in goods. The same cannot be said of the research on trade in services as it was totally qualitative in nature except in the case of one article. This is due to a lack of data on services trade between the EU and CARIFORUM groupings.

The literature concerning the liberalization of trade in tourism services was initially descriptive in nature. It subsequently became analytical by examining the impact of the GATS on the tourism industry and sustainability in that sector. More recently research on the liberalization of trade in tourism services has focused on issues of wage inequality and global value chains which are economic in nature. Thus, there has been a constant shift in the focus of the debate concerning the topic which can be described as dynamic.

The research undertaken on tourism in the Caribbean since 2000 focused on issues concerning competitiveness, development, economic growth and services negotiations all of which are intimately related to the topic of liberalization. However, what is quite noticeable is the lack of any research during the period of negotiation 2000 - 2007 on how the EPA would affect the tourism sector in the Caribbean and even more alarming is that there has been none since then either. This lack of interest on the part of academics has made it possible for this study to fill this gap in the knowledge.

Additionally, it has been recognized that there is a dearth of research on the liberalization of trade in services in the Caribbean, trade in tourism services in the Caribbean, foreign direct investment in the Caribbean and tourism related foreign direct investment. Regarding liberalizing trade in services, this is a recent trade policy reform intra regionally and inter regionally as was indicated in chapter 2. The dearth of academic research on this issue may also be attributed to the lack of data or lack of interest on the part of academics. Earlier in the chapter the predictive research of (PricewaterhouseCoopers 2004) suggested positive impacts on GDP in Trinidad and Jamaica in the presence of full liberalization of trade in tourism services under the EPA. The nexus between tourism service liberalization and economic growth has been acknowledged in this review but it is not examined in this study. Therefore, there is an opportunity for academics to explore if this form of service liberalization can affect economic growth in the Caribbean.

Also, the review of literature on foreign direct investment in the Eastern Caribbean and tourism related foreign direct investment illustrates that not much has been published on either of these topics concerning the Caribbean. One may attribute this to a lack of interest by academics or perhaps it may be because of insufficient

data. Finally, apart from what has been stated in the last paragraph of section 5.9 none of the academic work reviewed has included a trade agreement as a determinant of tourism demand which is a key feature of this study.

CHAPTER SIX

EXAMINING THE DETERMINANTS OF TOURISM RELATED FOREIGN DIRECT INVESTMENT.

6.1 INTRODUCTION

Over the last sixty years, tourism in the Caribbean has grown in stature from a fledgling industry to become the leading employer regionally and the principal earner of foreign exchange in many of the region's tourism dependent countries. This has occurred against the background of declining fortunes in the once dominant agricultural sector and substantial changes in the international trade regime which have primarily affected exports of sugar and bananas from the Caribbean as noted by (Bishop 2010). Statistical data retrieved from the World Travel and Tourism Council (WTTC) Travel and Tourism Economic Impact Report 2018 on the Caribbean for 2017, indicates that the region is the most tourism dependent regional destination globally. In regional rankings regarding relative contribution for 2017 the Caribbean placed first in four out of six categories (See Appendix 8)

The regional tourism industry is characterised by several types of tourism product offering such as culinary tourism, cultural and heritage tourism, cruise tourism, eco-tourism, festivals, health and wellness tourism, meetings incentives, conference and events tourism, sports tourism and yachting tourism. Also, there are seven sub-regional markets within the Caribbean namely the Dutch West Indies, the French West Indies, Hispanic Caribbean, the Organisation of Eastern Caribbean States (OECS), other Caribbean Community and Common Market (CARICOM), other Commonwealth and the United States Caribbean. Data retrieved from the Caribbean Tourism Organisation for 2014 indicates that the region recorded a strong performance as 26. 3 million visitors partook of the region's diverse product offering spending US$29 billion dollars.

Additionally, demand for tourism in the Caribbean was very strong as the region experienced a growth rate of 5.3% outperforming the rest of the world which had a growth rate of 4.7 percent (Riley 2015). Today, tourism sits at the apex of all industries which contribute towards economic activity in most countries of the Eastern Caribbean according to a report by (Enterplan 2006). However, the 2015 Briefing Paper on Foreign Direct Investment in Latin America and the Caribbean of the Economic Commission on Latin America and the Caribbean (ECLAC) indicated that there are some anomalies such as Guyana, Suriname and Trinidad and Tobago where tourism is outperformed by the natural resources sector. Despite the aforementioned exceptions, the tourism sector has still managed to attract substantial sums of tourism related foreign direct investment from North America, Europe, Asia and more recently the Middle East.

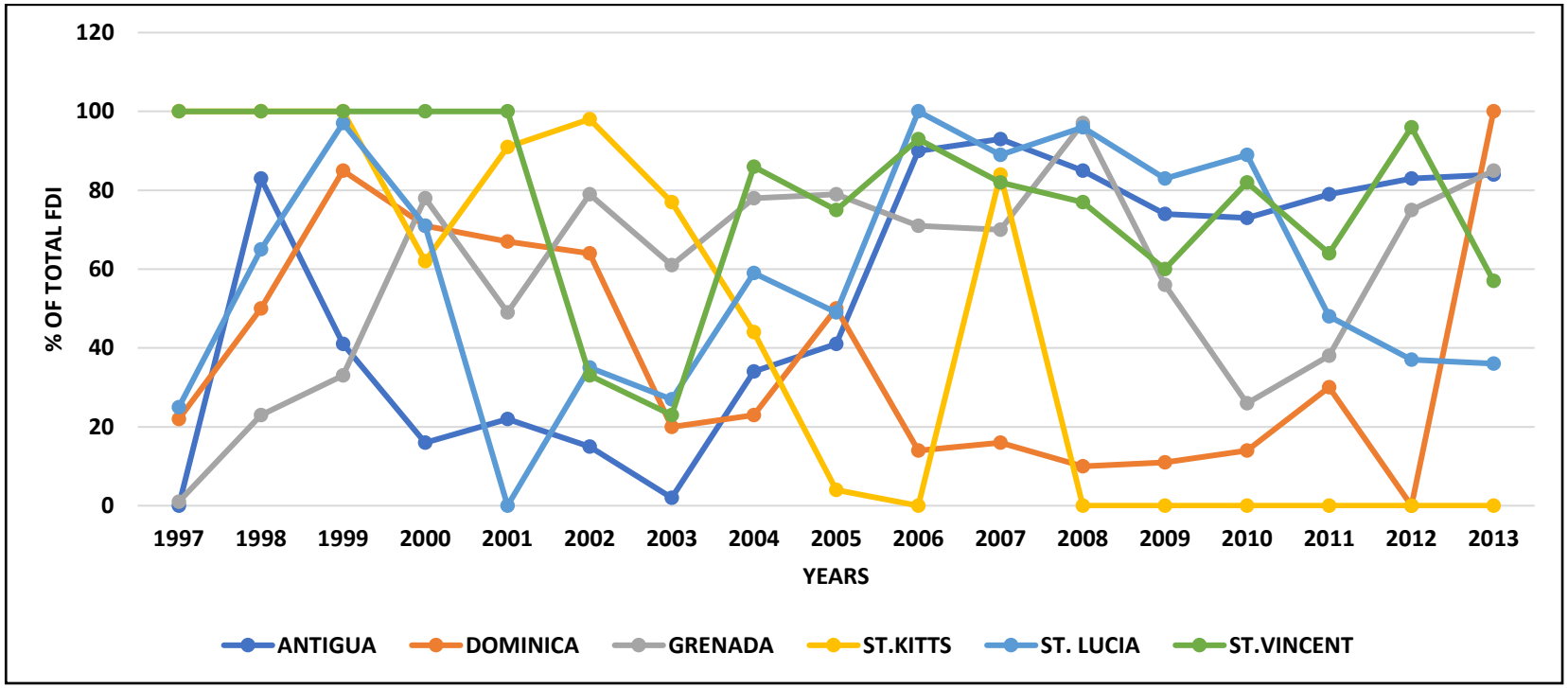
Regarding the Organisation of Eastern Caribbean States, the inflows of this type of foreign direct investment to six of the seven founding members[13] have been very significant during the period 1997 to 2013. Statistical data retrieved from the Foreign Direct Investment Flows of CARICOM Member States 2002-2013 Report shows that tourism related foreign direct investment has accounted for over fifty percent of the total foreign direct investment in those six islands on at least one occasion. Figure 30 indicates several interesting pieces of information. First, inflows of tourism foreign direct investment fluctuated generally throughout the period 1997-2013 in the OECS EPA signatories. Second, Antigua was the only country to record continuous increases in tourism foreign direct investment in the period 2003-2007 preceding the hosting of the Cricket World Cup in the Caribbean in 2007. Research undertaken by (Van Parys and James 2010) indicated that investment in the tourism sector in Antigua increased following the implementation of a corporate tax policy change extending corporate tax exemptions from 5 years to 25 years. Third, in 2007 foreign investment in the tourism sector was responsible for at least 70% of the total inflows of foreign investment in every country except Dominica which did not host any of the Cricket World Cup matches. Fourth, between 1997 and 2001 St Vincent was the only country where this type of foreign direct investment was responsible for 100% of

[13] Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

foreign direct investment at any given time. Fifth, in the post-2008 period St. Kitts experienced dramatic decreases in tourism related foreign direct investment whilst all other countries experienced fluctuations. This may possibly have been attributed to the Global Financial Crisis which occurred in 2008.

Indeed, it can be said that tourism related foreign direct investment is invaluable to these small island developing states. It creates employment opportunities for citizens, propels economic growth, creates spill-over effects concerning the transfer of technology and knowledge and it is considered as a source of financing for developmental projects.

FIGURE 30. TOURISM RELATED FOREIGN DIRECT INVESTMENT AS A PERCENTAGE OF TOTAL FOREIGN DIRECT INVESTMENT OECS EPA SIGNATORIES 1997– 2013



SOURCE: ADAPTED FROM FOREIGN DIRECT INVESTMENT FLOWS OF CARICOM MEMBER STATES REPORT (2014).

The substantial inflows of tourism related foreign direct investment into these Eastern Caribbean territories occurred in the mid 2000's at the same time when negotiations for the impending EPA that was bringing radical changes to trade policy development in the Caribbean were taking place. Following the end of trade preferences for goods from the Caribbean which were declared incompatible with the rules of the World Trade Organisation a new trade regime informing trade relations between Europe and the Caribbean was proposed by the European Union (EU). Negotiations concerning the Caribbean Forum (CARIFORUM) – European Union (EU) Economic Partnership Agreement (EPA) commenced in 2002 and concluded in 2007. Subsequently, as was indicated in chapter 1 in 2008 the EU and all of the CARIFORUM member states except Haiti signed the EPA which provided for reciprocal duty-free trade in goods and for the first time ever the liberalization of trade in services (including tourism services) between both trading blocs. Additionally, the trade agreement covered issues pertaining to investment.

The economic importance of tourism to the region coupled with the preceding economic developments serve as the motivation for investigating the effect of liberalizing trade in tourism services under the CARIFORUM-EU EPA on inflows of tourism-related foreign direct investment into the sub-region. Additionally, undertaking such a study facilitates the empirical analysis of how other determinants will affect inflows of foreign direct investment to the tourism sector in the aforementioned countries. Furthermore, this project will be an original contribution to the existing literature regarding trade policy development and tourism development in the Caribbean. The reason being, to the best of my knowledge no previous study has modelled the impact of the EPA on inflows of tourism–related foreign direct investment in the OECS EPA signatories. The rest of the chapter is organised as follows.

Section two identifies the theory regarding foreign direct investment which can best describe the phenomenon of tourism related foreign investment in the Caribbean engage in foreign direct investment. This is done by first describing the situation in the region and then determining which theoretical framework is most suitable based

on the theories that were examined at length in the first half of chapter 4. Section three describes the variables used in the econometric modelling process, outlines where the data was sourced and provides a rationale for the inclusion of each variable in the model. It also explains the methodological approach to be used in this chapter and the rationale for its choice whilst comparing it used against other approaches which were deemed to be unsuitable. The section also highlights the results of a series of diagnostic tests which are important to the study. The unit root tests are performed to ensure the stationarity of the data. The panel cointegration tests are conducted to determine if there is the existence of a long run relationship between the variables and to ensure that the risk of a spurious relationship has been minimised in the econometric modelling process. Section four presents the results of the econometric modelling and section five concludes the chapter.

6.2 THEORETICAL FRAMEWORK

This section of the chapter identifies the theoretical framework which can best explain the phenomenon tourism-related foreign direct investment in the Caribbean. To ascertain which theory is most suitable it is useful to examine the character of such investment in the region before arriving at a plausible conclusion.

According to (Falk 2016: 1) “The hotel industry is the most internationalised tourism industry as is evidenced by its high FDI inflows and outflows and the dominance of international hotel chains.” This statement is applicable to the Caribbean hotel industry as is evidenced by the presence of several multinational hotel chains such as Sandals International, Hilton Hotels and Resorts, Fairmont Hotels and Resorts and Four Seasons Hotels and Resorts all operating multiple branches throughout the Caribbean. This does not mean that foreign investment in the tourism industry is strictly limited to the accommodation sector. Foreign investors have also constructed golf courses, marinas, ports, restaurants and spas which has been outlined in the ECLAC Briefing Report 2015.

The pattern of multinational enterprises operating several units in the accommodation sector across the Caribbean illustrates that the horizontal theory of foreign direct investment is best suited for use as the theoretical framework in this chapter. This contention is supported by the thoughts of (Blonigen et al 2003) and (Carr et al 1996) which were outlined earlier in chapter 4. Additionally, none of the other theories of foreign direct investment that were reviewed in chapter 4 spoke to the issue of the multinational enterprise operating several units across multiple locations. Thus, they cannot be used to inform the theoretical aspect of this chapter. It is also clear that even though the horizontal theory focused on trade in goods it may also be applied to trade in services.

6.3 DATA AND METHODOLOGY

This section of the chapter first describes the data and then the econometric model used in this study. The dataset used in this study is annual data covering the period 1997 – 2013 for the six OECS EPA signatories. The variables selected consist of the dependent variable, three economic related variables and one dummy variable. Tourism Related Foreign Direct Investment (TFDI) is the dependent variable against which the independent variables will be empirically tested to ascertain how they will each affect it. Tourism related foreign direct investment has been used in a recent study by (Fauzel et al 2017) as an independent variable among others to ascertain its effect on economic growth in Mauritius.

The data used in this study is reported in millions of United States Dollars and is contained in the Foreign Direct Investment Flows of CARICOM Member States 2002-2013 Report. The data for the years 1997-2001 was made available for this research in an email from the office of the Project Director of the Regional Statistics Programme. It was not made clear if the data was real or nominal and so it was assumed to be nominal and converted to real data using the consumer price index for 2013. This is the only variable that featured missing values for three of the countries – Dominica for 2006 and 2009 - 2013; St. Kitts for 2006 and 2008 – 2013 and St. Lucia for 2001. Following (Barbi and Da Costa 2016) and (Tahir et al 2018),

the data was imputed through linear interpolation and the missing values were filled using STATA 13.

The independent variables to be used in this study are mainly economic in nature. Their inclusion within this model is justified on the grounds that they have been used in previous studies undertaken by (Root and Ahmed 1979) and (Paez 2008) which examined how foreign direct investment has been affected by manufacturing and a regional trade agreement. Research by (Ramasamy and Yeung 2010) focusing on the determinants of foreign direct investment in services also included identical variables. This study aims to predict how the identical economic variables will have an impact on the inflows of foreign direct investment to the tourism service sector in the OECS EPA signatories.

Trade openness (OPEN), is defined as the ratio of the total sum of exports and imports of goods and services to GDP which measures the trade restrictiveness of a host country**.** It was previously used by (Jang 2011) in a study and is included in the model because the research is interested in ascertaining what effect it will have on inflows of foreign direct investment to the tourism sector of OECS EPA signatories. The degree of a country's openness to trade can affect the level of foreign direct investment inflows in several ways. (Jaumotte 2004) stated that reduced import barriers discourage horizontal foreign direct investment. Conversely it can produce vertical foreign direct investment by facilitating the imports of inputs and machinery. Lower export barriers can stimulate vertical FDI through the re-export of processed goods and other non-tariff jumping horizontal foreign direct investment by expanding the market size. This data was sourced from the World Bank World Development Indicators Database.

Inflation rate (IR) which measures the annual percentage change in consumer prices has been included in the model as a proxy for economic stability. Research undertaken by (Demirhan and Masca 2008) indicate that developing countries with low inflation rates have been effective in attracting foreign direct investment. This data was sourced from the World Bank World Development Indicators Database.

Gross Domestic Product Per Capita (GDPPC) is included as a variable to ascertain the effect of the host country's market size as a determinant of foreign direct investment. Research undertaken by (Jaumotte 2004) showed that there was a positive effect of domestic market size and the level of foreign direct investment received by a host country. This data was sourced from the World Bank World Development Indicators Database.

The most important variable in the context of this study is the dummy variable, the Economic Partnership Agreement (EPA) which serves as the foundation of the dissertation. It is included within the model as a proxy for the liberalization of trade in tourism services. The aim here is to empirically test how this trade policy reform will affect inflows of tourism-related foreign direct investment into these OECS microstates. The descriptive statistics of the variables used in this chapter are set out in table 4 below.

TABLE 4. DESCRIPTIVE STATISTICS

Variable	Obs	Mean	Std. Dev.	Min	Max
TFDI	102	47.76823	49.47661	0.4372388	252.0907
GDPPC	102	20814.42	8109.078	10499.28	39764.68
INF	102	2.472492	2.093064	-1.672072	10.06624
OPEN	102	98.77451	17.97298	71	159
EPA	102	0.3529412	0.4802446	0	1

SOURCE: AUTHOR (2018)

Previous studies modelling services liberalization have focused on welfare effects – (Francois et al 2008); economic growth – (Terzi 2010); the implications of services

liberalization – (Balistreri et al 2009) and productivity – (Arnold et al 2011). The most frequently used econometric technique was Computable General Equilibrium (CGE) modelling. It has been argued by (Plummer et al 2010) that there are several advantages to using this modelling technique when analysing the effect of a free trade agreement. First, it is grounded in economic theory as it is premised on assumptions consistent with microeconomic theory. Second, CGE modelling produces clear and exact quantitative results enabling policymakers to ascertain who gains or loses from a free trade agreement. Third, as a free trade agreement involves changes in trade policy in multiple markets, the analysis may be too complex using algebraic or geometric methods. On the other hand, (Plummer et al 2010) acknowledged that there are disadvantages associated with the use of this technique. First, it requires substantial data. Second, the model's results may be sensitive to the assumptions and the data used. Third, CGE analysis of a free trade agreement does not generate results which illustrate how long it will take for economies to adjust and reach the new equilibrium. It has been contended that the technique is a long way from capturing dynamic features which are relevant to free trade agreements.

Meanwhile, (Font et al 2012) empirically tested the existence of an association between the liberalization of trade in services and inflows of foreign direct investment using a gravity model. The gravity model was introduced to economics by (Tinbergen 1962) and premised on the Newtonian theory of gravitation. Estimating a gravity model to measure the size of bilateral trade flows necessitates data concerning gross domestic product, population and distance. Other variables often used in such models include common language, common border and colonial ties.

Since its introduction to economics the gravity model has become the workhorse of international trade theory regarding forecasting the impact of changes in trade policy. However, one disadvantage associated with using this modelling technique is that it can generate spurious results if the data is inaccurate or important variables are excluded from the model. Conversely, its advantages include the following. The model has high explanatory power, it allows the researcher to control for other trade

related variables and quantify any changes in a country's trade due to a free trade agreement.

Other models used in panel data studies include static and dynamic models. (Samargandi et al 2013) reviewed the general framework by making the distinction between static and dynamic models. They illustrated that the former consists of Pooled Ordinary Least Squares (OLS), fixed effects and random effects models. It was clearly demonstrated that Pooled OLS is an extremely restrictive model imposing common intercept and slope coefficients whilst disregarding individual heterogeneity. Conversely, fixed effects models assume the estimator has common slopes and variances but country specific variances. One weakness of this estimator is the biased estimates it yields when endogenous regressors are correlated with the error terms. Random effects models are less restrictive regarding degrees of freedom as they assume common intercepts. The key drawback is the time invariant characteristic of the model meaning that the error is uncorrelated with the past, present or future which is known as strict exogeneity. Put differently, static models fail to capture the dynamic nature of data. Furthermore, concerning dynamic panel data modelling, (Roodman 2006) argued that the Generalised Method of Moments (GMM) Difference and System estimators performed well with datasets characterised by large numbers (N) of cross sections relative to small time periods (T). However, with small N, large T datasets the GMM estimators are likely to generate spurious results as the autocorrelation test may be unreliable. Additionally, the validity of the Sargan test of over identification restriction will be affected by the growing time span of the data as the number of instruments expands. Given the foregoing criticisms of the performance of GMM estimators it was imperative to find a more suitable modelling technique for use in this study that the dataset is characterised by a small N, (6 OECS EPA signatories) and a large time (T) period (1997-2013).

Alternatively, this study relies on Autoregressive Distributed Lag (ARDL) modelling as developed by (Pesaran et al 1999) in which a single equation is used to estimate long-run and short run dynamics. Additionally, it will determine whether a relationship

exists between the liberalization of trade in tourism services (proxied by the EPA) and the level of inflows of TFDI to the six OECS EPA signatories. Consequently, the ARDL econometric technique was selected given its three advantages. First, it is suited for small and finite datasets such as that which is being used in this study as (Adeleye et al 2017) noted. Second, the ARDL approach does not require the variables to be integrated of the same order. (Belloumi (2014: 277-278) observed that the variables may be integrated of order one or zero or a combination of both. However, they cannot be integrated of order two. Third, both short run and long run coefficients can be estimated as (Papageorgiou et al 2016: 60) opined whereas the other dynamic panel estimator – the Generalised Method of Moments (GMM) – only captures the short run dynamics as (Samargandi et al 2013: 9) observed.

According to (Chirwa and Odhiambo 2018: 15) "(Pesaran et al 1999) make three critical assumptions when estimating a Panel ARDL model." Firstly, the disturbances are independently distributed across countries and over time. Secondly, it is assumed that there is a long run relationship between the dependent variable and the explanatory variables. This is related to the fact that the model is characterised by a stationary process which means that the error correction term must lie between 0 and -1. Furthermore, all of the variables must be I (0) or I (1). Thirdly, the Panel ARDL model assumes that there is long run homogeneity concerning coefficients of the regressors across the cross-sections in the long run.

Regarding Panel ARDL modelling, three types of estimators are frequently used in relation to dynamic heterogeneous panels. They are the Mean Group (MG) which imposes no restrictions; the Pooled Mean Group (PMG) which imposes common long run effects and the Dynamic Fixed Effect (DFE) which constrains all of the slope coefficients and error variances to be identical as (Pesaran et al 1999) stated.

Research undertaken by (Pesaran and Shin 1995) illustrated that the use of the ARDL (p, q, q,…..q) model can produce consistent estimates relying on the Mean Group Estimator which estimates parameters for each country and subsequently the average for the group. Further research by (Pesaran et al 1999) showed that when

long run coefficients are homogeneous across groups and short run parameters vary, then the Pooled Mean Group Estimator is a more efficient estimator.

A linear model that is estimated has the form of an ARDL (p, q, q,…..q) model as developed by Pesaran, Shin and Smith (1999) and is denoted as follows

$$Y_{it} = \alpha_i + \sum_{j=i}^{pi} \lambda_{ij} Y_{i,t-1+} \sum_{j=1}^{q} \delta_{ij} X_{i,t-j} + \varepsilon_{it} \quad (1)$$

Where Y is a dependent variable TFDI, $X_{i,t-j}$ is the Kx1 vector of regressors for group ^{i} and α_i represents the country specific effects. This model can be reparametrized in the following way

$$\Delta Y_{it} = \alpha_i + \theta_i\left(Y_{i,t-1} - \beta_i X_{i,t-1}\right) + \sum_{j=1}^{p-1} yij\Delta Y_{i,t-j} + \sum_{j=1}^{q-1} yij\Delta X_{i,t-j} + \varepsilon_{it} \ (2)$$

Here β_i are the long-run parameters and θ_i are the error correction coefficients measuring the speed of adjustment towards long-run equilibrium. It is to be noted that this modelling technique restricts the long run estimates to be identical across the panel, but the short run coefficients and error correction variances differ across groups on the cross section.

When using EVIEWS 9 only the PMG estimator is available for use in Panel ARDL analysis. However, before the actual model estimation takes place it is imperative to perform Unit Root tests. Several such tests including the Fisher Augmented Dickey-Fuller test, Levin, Lin and Chu test and Im, Pesaran and Shin test which all have as the null hypothesis that all panels contain a unit root are performed to ascertain the stationarity of the data. Additionally, (Asghar et al 2015: 393) opined “In panel ARDL approach unit root test is applied to exclude the possibility of I (2) variables.” Here, the unit root tests were first performed at levels with the intercept, then intercept and trend and finally at first difference with the intercept and intercept and trend where necessary.

Table 5 below indicates that only Trade Openness and Inflation Rate are stationary at level for all unit root tests used. The other variables are non-stationary at some point and thus need to be first differenced and become I (1) in order to become

stationary. The main purpose of these tests is to ensure that none of the variables is integrated of order two I (2). If any of them are they cannot be included in the model as it would be a violation of a major assumption of the ARDL model as enunciated by (Pesaran et al 2001).

TABLE 5. PANEL UNIT ROOT TESTS AT LEVEL AND FIRST DIFFERENCE.

LEVEL					
		INTERCEPT		INTERCEPT & TREND	
VARIABLES	**TESTS**	**STATISTIC**	**P-VALUE**	**STATISTIC**	**P-VALUE**
TFDI	**LLC**	-0.08587	0.4658	-2.89311	0.001***
	IPS	-1.05534	0.1456	-1.81644	0.034**
	ADF Fisher	19.5334	0.070	20.2894	0.061
GDPPC	**LLC**	-2.48271	0.006***	0.25442	0.600
	IPS	-0.76343	0.222	1.06721	0.857
	ADF Fisher	14.5282	0.268	6.23730	0.903
IR	**LLC**	-7.99365	0.000***	-5.08348	0.000***
	IPS	-7.09096	0.000***	-5.19950	0.000***
	ADF Fisher	63.2462	0.000***	44.0033	0.000***
OPENNESS	**LLC**	-2.50589	0.006***	-6.09259	0.000***
	IPS	-3.86376	0.000***	-4.73545	0.000***

	ADF Fisher	37.4648	0.000***	42.2683	0.000***

		FIRST DIFFERENCE			
		INTERCEPT		**INTERCEPT & TREND**	
TFDI	**LLC**	-2.93187	0.001***	-3.03735	0.001***
	IPS	-4.38803	0.000***	-3.29954	0.000***
	ADF Fisher	27.5631	0.006***	25.8069	0.011***
GDPPC	**LLC**	-5.80058	0.000***	-5.08456	0.000***
	IPS	-4.92555	0.000***	-3.99705	0.000***
	ADF Fisher	44.5507	0.000***	36.6285	0.000***

*** ** and * denotes significance at the 1%, 5% and 10% level.

LLC – Levin, Lin and Chu;

IPS – Im, Pesaran and Shin;

ADF Fisher – Augmented Dickey Fuller

SOURCE: AUTHOR (2018)

Given the mixed order of integration of the variables the traditional cointegration tests cannot be applied. This view was acknowledged by (Rafindadi and Yusof 2013: 124) who wrote “Due to the existence of mixed levels of integration among series we proceed to apply the Panel ARDL approach rather than traditional static or panel cointegration tests” Meanwhile (Chirwa and Odhiambo 2018) explained that using the PMG estimator of the Panel ARDL technique mandated that the variables should

be cointegrated. They noted that several panel cointegration tests such as (Kao 1999), (Pedroni 1999, 2004) and (Fisher 1932) can be used to determine whether or not there is cointegration among the variables.

This study relies on the (Kao 1999) panel cointegration test which was performed using STATA 15 to determine if there is a long run relationship among the variables. According to the hypothesis of the (Kao 1999) cointegration test there is no cointegration. However, the results generated are presented below in table 6 reject this in favour of the alternative that there is a long run relationship among the variables as all of the tests are below 0.05% and statistically significant.

TABLE 6 PANEL KAO COINTEGRATION TEST RESULTS

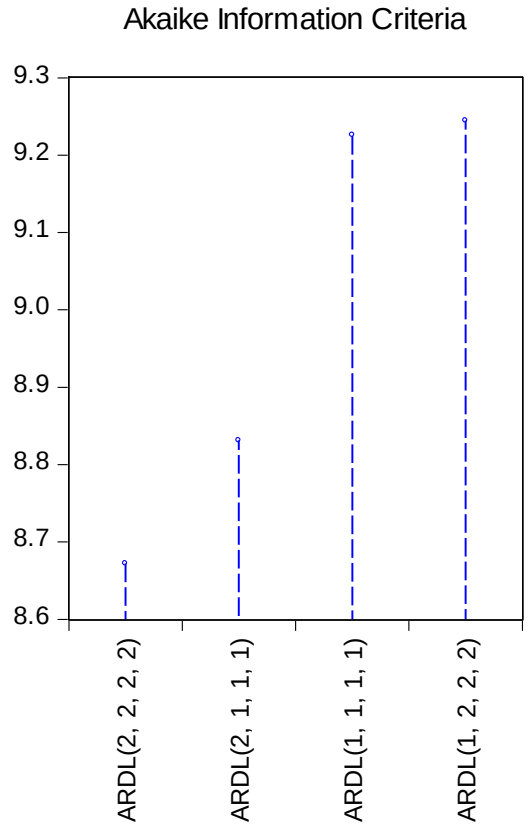
	t Statistics	P value
Modified Dickey-Fuller	-2.9043	0.0018
Dickey-Fuller t	-2.4161	0.0078
Augmented Dickey-Fuller t	-4.2183	0.0000
Unadjusted modified Dickey-Fuller t	-2.9163	0.0018
Unadjusted Dickey-Fuller t	-2.4198	0.0078

SOURCE: AUTHOR (2018)

6.4 RESULTS

The results of a Panel ARDL model are presented below. The model is estimated using the (2, 2, 2, 2) model selection criteria based on Akaike Information Criteria that was generated using EVIEWS 9 and applied to a linear model.

FIGURE 31. AKAIKE INFORMATION CRITERIA



SOURCE AUTHOR (2018)

It was chosen because it had the lowest AIC score out of 4 model specifications considered (See Table 7).

TABLE 7. MODEL SELECTION CRITERIA

Dependent Variable: TFDI					
Sample: 1997 2013					
Included observations: 102					
Model	**LogL**	**AIC***	**BIC**	**HQ**	**Specification**
4	-327.244295	8.672095	10.421962	9.377745	ARDL(2, 2, 2, 2)
3	-352.408793	8.831307	10.081211	9.335342	ARDL(2, 1, 1, 1)
1	-376.167749	9.225950	10.309201	9.662780	ARDL(1, 1, 1, 1)
2	-359.004995	9.244555	10.827768	9.883000	ARDL(1, 2, 2, 2)

SOURCE AUTHOR (2018)

Subsequently the (2, 2, 2, 2) specification was applied to the variables TFDI, GDPPC, OPEN and IR respectively and not the EPA, a dummy variable which remained fixed. The results of the General model presented below in table 8 indicate that all of the variables are strongly significant in the long run. In this study inflation rate (IR) appears as an indicator of economic stability and its coefficient is negative as was expected. A similar result was found in the work of (Seddeke and Rahman 2016) when they used inflation rate in a model as a determinant of foreign direct investment. Trade openness (OPEN) is a statistically significant determinant and carries a positive sign. Similar results were produced in (Demirhan and Masca 2008) where their results of that variable also showed a positive sign. The findings of this study concerning Gross Domestic Product Per Capita (GDPPC) indicated that its coefficient carries the expected positive sign. This result is similar to that generated in a study by (Jaumotte 2004).

In the short run inflation has a positive and significant effect on inflows of tourism related foreign direct investment for the period 1997-2013. Also, the EPA is not a statistically significant determinant of tourism related foreign direct investment.

TABLE 8 PMG ESTIMATION OF PANEL ARDL (2 2 2 2) – GENERAL MODEL.

Dependent Variable: D(TFDI)
Method: ARDL
Sample: 1999 2013
Included observations: 90
Maximum dependent lags: 2 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (2 lags, automatic): GDPPC IR OPEN
Fixed regressors: EPA C
Number of models evaluated: 4
Selected Model: ARDL (2, 2, 2, 2)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
	Long Run Equation			
GDPPC	0.018567	0.001166	15.91914	0.0000***
IR	-7.181641	1.940828	-3.700298	0.0007***
OPEN	0.706577	0.150738	4.687448	0.0000***

Short Run Equation				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
COINTEQ01	-0.652875	0.226370	-2.884105	0.0064
D(TFDI(-1))	0.150138	0.302788	0.495851	0.6228
D(GDPPC)	0.007352	0.006786	1.083346	0.2853
D(GDPPC(-1))	-0.001960	0.005574	-0.351703	0.7270
D(IR)	2.036134	0.937259	2.172435	0.0360**
D(IR(-1))	1.278028	0.590981	2.162555	0.0368**
D(OPEN)	0.004306	1.154542	0.003729	0.9970
D(OPEN(-1))	-0.827084	0.674765	-1.225736	0.2276
EPA	7.210072	7.273621	0.991263	0.3277
C	-291.2772	154.6153	-1.883884	0.0671
Mean dependent var	1.680478	S.D. dependent var		39.30562
S.E. of regression	26.74325	Akaike info criterion		7.651849
Sum squared resid	27892.85	Schwarz criterion		9.273156
Log likelihood	-327.2443	Hannan-Quinn criter.		8.308371
*Note: p-values and any subsequent tests do not account for model selection				

*** ** and * denotes significance at the 1%, 5% and 10% level.

SOURCE: AUTHOR (2018)

At the country level the short run estimates presented in table 9 below which vary across the countries indicate that Gross Domestic Product Per Capita lagged one year is a statistically significant determinant of investment in the tourism sector in all islands. Tourism FDI lagged one year is a statistically significant determinant of tourism investment in all countries except St. Lucia. The same applies to GDPPC lagged for two years. This result supports the established hypothesis that market size measured by GDP per capita is the main determinant for horizontal FDI. Also, inflation rate lagged one year is a weak statistically significant determinant only in the case of TFDI in St. Vincent and the Grenadines. Trade openness lagged one and two years is a strong statistically significant determinant of tourism investment in Antigua and Barbuda, Dominica, St. Kitts and Nevis and St. Vincent and the Grenadines.

Additionally, the error correction terms are all negative and statistically significant in the panel of countries. Such results indicate the presence of long run cointegration relationship among the variables in those countries. (Onafowora and Owoye 2012: 169) concurred with this view when they stated “According to (Banerjee et al 1998), a negative and statistically significant error correction term confirms the existence of a long-run cointegration relationship among the variables.” Only Antigua and Barbuda has an error correction term which is lower than -1.

The Economic Partnership Agreement (EPA) variable is a proxy for the liberalisation of trade in services and the result is not statistically significant in any country. However, its coefficient carries a negative sign for Dominica, Grenada and St. Lucia indicating that it causes a decrease in inflows of tourism related investment. Thus, it is argued that the EPA is capturing the negative effects associated with the Global Financial Crisis which began in 2008 when the EPA was signed. This result contrasts with those of the study by (Font et al 2012) which illustrated that the liberalization of trade in services had a significant and positive impact on FDI in Central and Eastern European countries and Mediterranean non-member countries. Conversely, the EPA has a positive effect on inflows of tourism related foreign direct investment in Antigua and Barbuda, St. Kitts and Nevis and St. Vincent and the Grenadines and a negative effect in the other countries.

TABLE 9. PMG ESTIMATION OF PANEL ARDL (2 2 2 2) – COUNTRY LEVEL.

ANTIGUA AND BARBUDA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-1.692641	0.059652	-28.37514	0.0001***
D(TFDI(-1))	0.537441	0.035238	15.25155	0.0006***
D(GDPPC)	0.010163	4.50E-05	225.9849	0.0000***
D(GDPPC(-1))	-0.010223	1.60E-05	-640.5316	0.0000***
D(IR)	-1.433295	20.83537	-0.068791	0.9495
D(IR(-1))	3.907560	9.044094	0.432057	0.6949
D(OPEN)	-0.886662	0.318349	-2.785186	0.0687*
D(OPEN(-1))	-3.083539	0.383671	-8.036926	0.0040***
EPA	20.32966	219.2444	0.092726	0.9320
C	-1055.995	18904.50	-0.055859	0.9590

DOMINICA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.349090	0.009356	-37.31057	0.0000***
D(TFDI(-1))	-0.343987	0.028379	-12.12120	0.0012***
D(GDPPC)	-0.001393	3.58E-06	-389.1111	0.0000***
D(GDPPC(-1))	-0.002190	2.67E-06	-820.2468	0.0000***
D(IR)	1.008234	0.750039	1.344241	0.2715
D(IR(-1))	0.502525	0.216744	2.318517	0.1032
D(OPEN)	-0.002127	0.006407	-0.332034	0.7617
D(OPEN(-1))	-0.110819	0.006685	-16.57711	0.0005*
EPA	-1.196722	3.484177	-0.343473	0.7539
C	-105.8388	720.9356	-0.146808	0.8926

GRENADA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.705337	0.017387	-40.56662	0.0000***
D(TFDI(-1))	0.920477	0.033983	27.08604	0.0001***
D(GDPPC)	-0.009299	4.46E-05	-208.4074	0.0000***
D(GDPPC(-1))	-0.019172	3.82E-05	-502.2340	0.0000***
D(IR)	5.158054	3.399587	1.517259	0.2265
D(IR(-1))	1.872962	2.496081	0.750361	0.5075
D(OPEN)	-0.114140	0.145478	-0.784590	0.4899
D(OPEN(-1))	0.111324	0.243944	0.456350	0.6791
EPA	-18.49818	102.5275	-0.180422	0.8683
C	-211.7694	2377.082	-0.089088	0.9346

ST. KITTS AND NEVIS

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.080151	0.005248	-15.27186	0.0006***
D(TFDI(-1))	0.690633	0.027136	25.45107	0.0001***
D(GDPPC)	0.010297	1.03E-05	998.3109	0.0000***
D(GDPPC(-1))	-0.001433	1.53E-05	-93.84417	0.0000***
D(IR)	1.784853	2.041665	0.874214	0.4463
D(IR(-1))	-0.038848	1.588674	-0.024453	0.9820
D(OPEN)	-2.860010	0.524753	-5.450204	0.0121**
D(OPEN(-1))	-1.911406	0.592994	-3.223314	0.0485**
EPA	22.08555	67.14155	0.328940	0.7638
C	-56.32048	1578.397	-0.035682	0.9738

ST. LUCIA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.615275	0.063437	-9.698997	0.0023***
D(TFDI(-1))	0.158818	0.071391	2.224618	0.1126
D(GDPPC)	0.037400	0.001565	23.90052	0.0002***
D(GDPPC(-1))	-0.000559	0.000802	-0.696396	0.5363
D(IR)	1.818092	21.41783	0.084887	0.9377
D(IR(-1))	0.370681	21.18097	0.017501	0.9871
D(OPEN)	-1.479721	2.498009	-0.592360	0.5953
D(OPEN(-1))	-1.496771	6.382306	-0.234519	0.8297
EPA	-4.620340	1230.278	-0.003756	0.9972
C	-185.3792	7467.545	-0.024825	0.9818

ST. VINCENT AND THE GRENADINES

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.474757	0.003907	-121.5140	0.0000***
D(TFDI(-1))	-1.062555	0.013665	-77.76010	0.0000***
D(GDPPC)	-0.003058	3.53E-05	-86.73675	0.0000***
D(GDPPC(-1))	0.021814	5.21E-05	418.6480	0.0000***
D(IR)	3.880868	1.461980	2.654529	0.0767*
D(IR(-1))	1.053289	0.667321	1.578384	0.2126
D(OPEN)	5.368494	0.519512	10.33372	0.0019***
D(OPEN(-1))	1.528709	0.348543	4.386001	0.0219**
EPA	25.16047	60.73484	0.414267	0.7065
C	-132.3600	339.3071	-0.390089	0.7225

*** ** and * denotes significance at the 1%, 5% and 10% level respectively

SOURCE: AUTHOR (2018)

6.5 CONCLUSION

This chapter modelled the effect of a trade policy reform which liberalized trade in tourism services between the CARIFORUM and EU groups of states on inflows of tourism related foreign direct investment to Antigua and Barbuda**,** Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

It sought to ascertain what effect OECS Gross Domestic Product Per Capita (GDPPC), OECS trade openness (OPEN), Inflation rate (IR) and the liberalization of trade in tourism services proxied by the EPA would have as determinants of inflows of tourism related foreign direct investment (TFDI). It was discovered that Gross Domestic Product Per Capita is a statistically significant determinant of foreign direct investment.

Incorporating the EPA as a variable makes the study unique as it is the first time that this specific trade agreement is being used in academic research as a determinant of tourism related foreign direct investment. Additionally, this is the first time that the horizontal model of foreign direct investment is being used as the theoretical framework to inform a study concerning tourism-related foreign direct investment in the Caribbean.

The data used in this study covered the period 1997 – 2013 and given the small size of the dataset, the Panel ARDL technique was chosen over other dynamic panel data analysis methods. Of the three estimators available for use regarding the Panel ARDL technique to execute econometric modelling, the Pooled Mean Group (PMG) estimator was chosen over the Mean Group and Dynamic Fixed Effects estimators. It has been used previously in several studies undertaken by (Bangake and Eggoh 2012), (Rafindadi and Yosuf 2013), (Chirwa and Odhiambo 2018).

CHAPTER SEVEN

LIBERALIZING TRADE IN TOURISM SERVICES AND ITS EFFECT ON EUROPEAN TOURISM DEMAND

7.1 INTRODUCTION

Earlier in chapter 2 it was illustrated how service liberalization unfolded at the international level. By the year 2000, services became a subject of multilateral trade negotiations. During this period known as 'new regionalism' there was a tremendous growth in the number of regional trade agreements being reported to the World Trade Organisation. According to (Burfisher et al 2004: 1) "Most of the early attempts at regional trade agreements (RTAs) in the 1950's and 1960's, many of them among developing countries, met with little success. This "first wave" of regionalism has been eclipsed by the exponential growth in the number of RTAs formed over the past 10 years. As of May 2003, 184 RTAs were in force. Almost every WTO member has now joined at least one RTA and some have entered 20 or more."

Additionally, there were radical changes regarding the constitution of these new regional trade agreements when compared to previous trade agreements which focused solely on issues of tariff reduction and/or elimination during 'old regionalism'. Rather, these new trade agreements covered a range of behind the border issues such as competition policy, investment, intellectual property and services as (Crawford and Laird 2000) noted**.** One such trade agreement is the EPA. It is considered to be a historic trade agreement because among other things it liberalizes trade in services including tourism services between both geographic regions for the first time ever.

Given the economic importance of trade in services and the tourism sector to the OECS EPA signatories which were examined closely in chapter two it is clear that a strong trade-tourism nexus exists in these microstates. The trade-tourism nexus outlined in Appendix 10 is a small but expanding body of literature which has been addressed by several authors from varying perspectives. It also indicates the lack of

empirical work on the trade-tourism nexus concerning the Caribbean and how trade affects tourism demand for destinations in that region as well as inflows of tourism related foreign direct investment. By refocusing on the importance of the services and tourism sectors to the OECS EPA signatories it is understandable why tourism services were included in the EPA for liberalization concerning trade with the European Union. Previously it was shown in chapter 2 that the CARICOM-Cuba (2000) and CARICOM-Dominican Republic (2001) trade agreements have also liberalized trade in tourism services but not to the extent of the EPA.

Previous research concerning trade agreements, trading blocs and tourism has been outlined below in Appendix 11 shows that there is no existing research which has modelled the effect of a trade agreement on tourism demand for any destination in the Caribbean. This is exactly the gap in the body of knowledge which this chapter is seeking to fill. Its purpose is to ascertain what effect liberalizing trade in tourism services under the EPA would have on European tourism demand for OECS EPA signatories.

The rest of the paper is set out as follows. Section two briefly explains which theoretical framework is most suited for explaining tourism demand in the context of this study. Next, section three describes the variables used in this study, outlines their sources and explains why they were included in the econometric model. The section also highlights the results of a series of diagnostic tests which are important to the study. The unit root tests are performed to ensure the stationarity of the data. The panel cointegration tests are conducted to ascertain whether or not the variables are cointegrated which is indicative of a long run relationship and to ensure that the risk of a spurious relationship has been minimised in the econometric modelling process. Afterwards section four outlines the results of the study based on the econometric methodology used and then section five concludes the chapter.

7.2 THEORETICAL FRAMEWORK

In the second half of chapter 4 it was illustrated that the theory of consumer behaviour is best suited for explaining the concept of tourism demand in the context of this study which is characterised by an econometric modelling containing variables such as income, prices, substitute prices, room supply and the EPA to ascertain their effect on European tourism demand for the OECS EPA signatories. The examination of the theory also showed how its assumptions interacted with each other to affect demand. Furthermore, it was show how income and prices singularly or combined can also affect an individual's consumption patterns of goods and which ultimately affects the quantity demanded.

The significant effect which variables such as income and prices can have on tourism demand has been investigated thoroughly in the literature on the subject as was outlined in chapter 5. Research has focused on three types of determinants economic, economic non-price and non-economic or qualitative determinants. Academics like (Crouch 1994), (Lim 1997) and (Witt and Witt 1995) among many others have undertaken meta-analytic studies and found the key economic determinants to be price, income, transportation and exchange rates. However, since 2000 other variables such as origin country, cost of living in the destination country and cost of living in the substitute country, habit persistence, one off events, climate change and political instability have been used in demand analysis. Research by (Buckley and Geyikdagi 1986) has also focused on economic non-price determinants such as foreign direct investment. Meanwhile, (Anastasiadou and De Sauamarez 2006) have examined the emergence of trading blocs whilst (Crouch 1994), (Song et al 2010) and (Song and Li 2012) investigated the effects of marketing expenditure on tourism demand. Additionally, other academics such as (Cho 2010) have focused their analyses on qualitative determinants such as culture and heritage, seasonality, environmental conditions. (Cavlek 2002) illustrated that tour operators have had an influence on the international tourist flows and (Sezgin and Yolal 2012) demonstrated that aeronautical technological advances have also positively affected international travel.

In this study the attention focuses on income, prices, substitute prices – economic variables and the EPA an economic non price variable to ascertain their effect on European tourism demand for the aforementioned microstates in the Eastern Caribbean. The study is not concerned with characteristics of a good or service (in this case tourism) and their effect on demand which was the focus of Lancaster's theory of consumer demand. On that basis it is asserted that the neo-classical theory of consumer demand is the most appropriate theoretical framework to inform this chapter.

7.3 DATA AND METHODOLOGY

The model is premised on standard economic theory which stipulates that income and price are two key determinants of tourism demand. Additionally, the model includes one supply side variable and that of prices in a substitute destination namely, Barbados. Below is a detailed explanation of all the variables used in the model and a justification for their inclusion in the study. Here, the dependent variable is European tourist arrivals (ETA) which is measured in thousands and is representative of tourism demand following (Naude and Saayman 2005), (Salleh et al 2007) and (Hanafiah et al 2010). Furthermore, (Salleh et al 2007: 349) observed that tourism demand could have been measured otherwise by opining "The other possible variable is tourist expenditures. However, due to the difficulties in obtaining information on expenditure, tourist arrivals from chosen countries of origin, for the period 1970-2004, has been chosen as the dependent variable." The expenditure approach was previously used by (Proençca and Soukiazis 2005) in their study which estimated demand for tourism in Portugal. The lack of data pertaining to tourist nights and tourist expenditure used to measure tourist demand concerning European tourists ensured that tourist arrivals data was used as the dependent variable in this study. This data was sourced from the national tourist offices, the OECS Secretariat, the Caribbean Tourism Organisation (CTO), the International Monetary Fund (IMF) and the Eastern Caribbean Central Bank (ECCB).

Three independent economic variables used in this study include the following: Gross Domestic Product per capita of the European Union (EUGDPPC) is measured in thousands. It was included since economic theory stipulates that as per capita income of the origin country or region increases so too does disposable income. This enables people to afford the expense of international tourism according to (Brakke 2004: 15). The variable has also been used by (Hanafiah et al 2010) and (Yazdi and Khanalizadeh 2017) in demand analysis studies.

Consumer Price Index (OECSCPI) is used as a measure of the cost of living in the destinations or competing substitute destinations. (Crouch 1994: 649) has noted "most frequently prices have been represented by published consumer price indicies"

Following (Chasapopoulos et al 2014) the consumer price index of Barbados a substitute destination (BDSCPI) will be included within the model to ascertain whether that island's prices will have an impact on tourist flows to the OECS EPA signatories. The data for these economic variables was sourced from the World Bank World Development Indicators Database.

One supply-side variable room stock (RS) is contained in the model to capture its effect on European tourism demand concerning these microstates which are the focus of this study. Room stock has been used in previous studies by (Cuilic 2014) and (La Framboise et al 2014) who have both investigated how it has affected the flow of tourists to destinations. Data for this variable was sent in an email after having contacted the staff at Share Center through its website https://www.strglobal.com.

The model also contains one dummy variable the Economic Partnership Agreement (EPA) which serves as a proxy for tourism liberalization. This is the most important variable as this research question is seeking to determine whether liberalizing trade in tourism services under the EPA will enhance tourist arrivals from the European Union.

Table 10 illustrates the descriptive statistics of the variables used in this analysis which was produced using EVIEWS 9. None of the variables was characterised by missing values as they all had 102 observations.

TABLE 10 DESCRIPTIVE STATISTICS

Variable	Obs	Mean	Std. Dev.	Min	Max
ETA	102	44487.64	35801.65	8020	115448
EUGDPPC	102	4729396	331721.1	4364143	5467673
OECSCPI	102	92.89932	14.84265	67.063	131.948
BDSCPI	102	82.9223	17.62604	64.6846	116.4568
RS	102	2204.873	1416.170	517.0000	4514.000
EPA	102	0.352941	0.480245	0	1

SOURCE: AUTHOR (2018)

Unlike chapter 6 which modelled the effect of liberalizing trade in tourism services on inflows of tourism related foreign direct investment this chapter models the effect of that trade policy reform on European tourist arrivals into the OECS EPA signatories. Like chapter 6 it acknowledges the existence of other econometric techniques used in research modelling service liberalization. Among them are CGE modelling, the gravity model, Pooled OLS, fixed effects and random effects models. CGE modelling is grounded in economic theory and it gives exact results. Conversely, the process requires substantial data which may not always be available, the technique does not take into account the length of time needed for economies to reach equilibrium. The gravity model is beneficial to use as it has high explanatory power and allows the researcher to control for other trade related variables. On the other hand, it can produce spurious results if the data is inaccurate.

Pooled OLS models are extremely restrictive characterised by common intercepts and slope coefficients and disregard heterogeneity. Fixed effects models are based on the assumption that the estimator has common slopes and variances but country specific variances. A disadvantage of using this estimator is that it produces biased estimates in the presence of correlation between endogenous regressors and the error terms. Last, random effects models are at the opposite end of the spectrum of fixed effects models. They are less restrictive requiring degrees of freedom as they assume common intercepts. Their main disadvantage is the time invariant characteristic which means that the error term is uncorrelated with the past, present or future. This means that these models are strictly exogenous.

Alternatively, the empirical methodology in this chapter will be guided by the Panel Auto Regressive Distributed Lag technique. A linear model is estimated which has the form of an ARDL (p, q, q,…..q) model as developed by (Pesaran, Shin and Smith 1999) and is denoted as follows

$$Y_{it} = \alpha_i + \sum_{j=i}^{pi} \lambda_{ij} Y_{i,t-1+} \sum_{j=1}^{q} \delta_{ij} X_{i,t-j} + \varepsilon_{it} \quad (1)$$

In this instance, Y is a dependent variable ETA, $X_{i,t-j}$ is the Kx1 vector of regressors for group ^{i} and α_i represents the country specific effects. This model can be reparametrized in the following way

$$\Delta Y_{it} = \alpha_i + \theta_i\left(Y_{i,t-1} - \beta_i X_{i,t-1}\right) + \sum_{j=1}^{p-1} yij\Delta Y_{i,t-j} + \sum_{j=1}^{q-1} yij\Delta X_{i,t-j} + \varepsilon_{it} \quad (2)$$

Here β_i are the long-run parameters and θ_i are the error correction coefficients measuring the speed of adjustment towards long-run equilibrium. The model was estimated using the PMG estimator which restricts long run coefficients to be identical across the panel, but the short run coefficients and error correction variances differ across groups on the cross section.

When using EVIEWS 9, only the PMG estimator is offered to researcher for use in their analysis. As in chapter 6 the next step in the econometric testing process would involve testing for cointegration among the variables. However, before that can be

done the it must be shown that the variables are all integrated of the same order. To ascertain this, unit root tests need to be performed and the results of such tests are outlined below in table 11.

TABLE 11. PANEL UNIT ROOT TESTS AT LEVEL AND FIRST DIFFERENCE.

LEVEL					
		WITH INTERCEPT		INTERCEPT & TREND	
VARIABLES	TESTS	STATISTIC	P-VALUE	STATISTIC	P-VALUE
ETA	LLC	-4.27829	0.000***	-4.07248	0.000***
	IPS	-3.48473	0.000***	-1.90292	0.028**
	ADF Fisher	33.1292	0.000***	24.5193	0.017***
EUGDPPC	LLC	-7.57870	0.000***	-2.42175	0.007***
	IPS	-4.39858	0.000***	2.26205	0.988
	ADF Fisher	39.5013	0.000***	2.02153	0.999
OECSCPI	LLC	3.03124	0.998	-0.97157	0.165
	IPS	6.03960	1.000	0.79407	0.786
	ADF Fisher	0.24309	1.000	5.86038	0.923
BDSCPI	LLC	8.58744	1.000	-2.57993	0.004***
	IPS	10.4306	1.000	1.62555	0.948

	ADF Fisher	0.00120	1.000	3.22539	0.993
RS	**LLC**	-1.02616	0.152	-1.42899	0.076*
	IPS	-1.10031	0.135	-0.44881	0.326
	ADF Fisher	15.5789	0.211	16.0806	0.237

		FIRST DIFFERENCE			
VARIABLES	**TESTS**	**WITH INTERCEPT**		**INTERCEPT & TREND**	
EUGDPPC	**LLC**	-5.58252	0.000***	-6.90582	0.000***
	IPS	-2.84043	0.002***	-3.44720	0.000***
	ADF Fisher	25.5623	0.008***	32.8430	0.001***
OECSCPI	**LLC**	-6.21964	0.000***	-3.61972	0.000***
	IPS	-5.49560	0.000***	-4.07316	0.000***
	ADF Fisher	48.9705	0.000***	35.4241	0.000***
BDSCPI	**LLC**	-4.05490	0.000***	-2.69581	0.003***
	IPS	-2.10852	0.017***	-1.94610	0.025***
	ADF Fisher	21.0588	0.049***	21.4084	0.044***
RS	**LLC**	-7.01667	0.000***	-4.49419	0.000***
	IPS	-5.20650	0.000***	-4.01858	0.000***

	ADF Fisher	47.1411	0.000***	36.0369	0.000***

*** ** and * denotes significance at the 1%, 5% and 10% level.
LLC – Levin, Lin and Chu;

IPS – Im, Pesaran and Shin;

ADF Fisher – Augmented Dickey Fuller

SOURCE: AUTHOR (2018)

The preceding unit root results indicate that the variables are integrated of different orders which means that traditional cointegration techniques cannot be used here. This point was also acknowledged by (Aliha et al 2017: 34) who opined "traditional methods of estimating cointegration relationships such as Engle-Granger (1987) or Johansen's (1991, 1995) methods or single equation methods such as Fully Modified OLS or Dynamic OLS either require all variables to be I (1)….."

Following chapter 6 the study employs the Kao (1999) panel cointegration test to ascertain whether a long run relationship exists among the variables. According to the hypothesis of the Kao 1999 cointegration test there is no cointegration. However, the results generated using STATA 15 are presented below in table 12 reject this in favour of the alternative that there is a long run relationship among the variables as all of the tests are below 0.05% and statistically significant.

TABLE 12. PANEL KAO COINTEGRATION TEST RESULTS

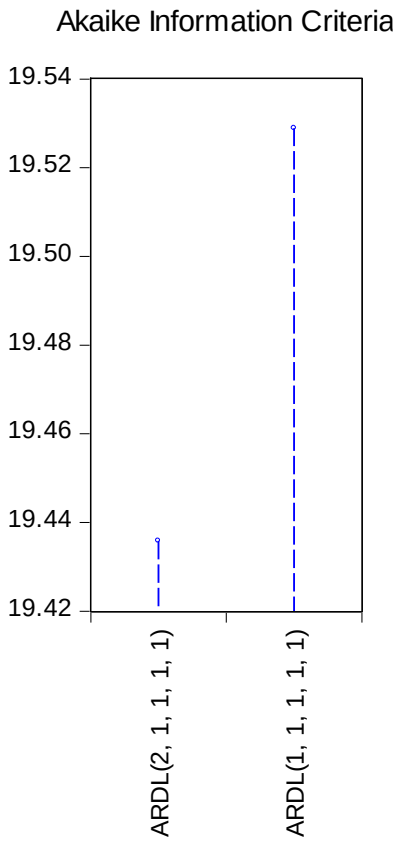
	t Statistics	P value
Modified Dickey-Fuller	-3.1753	0.0007
Dickey-Fuller t	-2.8032	0.0025
Augmented Dickey-Fuller t	-4.8628	0.0000
Unadjusted modified Dickey-Fuller t	-3.1753	0.0007
Unadjusted Dickey-Fuller t	-2.8032	0.0025

SOURCE: AUTHOR (2018)

7.4 RESULTS

The results of a Panel ARDL model are presented below. The model is estimated using the (2,1,1,1,1) model selection criteria based on Akaike Information Criteria that was generated using EVIEWS 9. It was applied in a linear model to the variables ETA, EUGDPPC, OECSCPI, BDSCPI and RS respectively and not the EPA, a dummy variable which remained fixed.

FIGURE 32 MODEL SELECTION CRITERIA GRAPH



SOURCE AUTHOR (2018)

It was chosen because it had the lower AIC, BIC and HQ scores of the 2 model specifications considered (See Table 13).

TABLE 13. MODEL SELECTION CRITERIA TABLE

Model Selection Criteria Table					
Dependent Variable: ETA					
Date: 03/25/19 Time: 22:11					
Sample: 1997 2013					
Included observations: 102					
Model	LogL	AIC*	BIC	HQ	Specification
2	-822.611608	19.435814	20.880148	20.018254	ARDL(2, 1, 1, 1, 1)
1	-832.801505	19.528922	20.806603	20.044158	ARDL(1, 1, 1, 1, 1)

SOURCE AUTHOR (2018)

The results of the General model presented in table 14 below illustrate that in the long run all variables are statistically significant determinants of European tourism demand. The coefficients of EUGDPPC and BDCSPI both carry negative signs. Thus, a 1% increase in income will yield a decrease of 0.005% in European tourist arrivals which may be reflective of consumer choices as one destination becomes relatively more or less expensive. Meanwhile the BDSCPI variable has a negative coefficient and is a proxy of OECS prices. A 1% increase in OECS prices results in 452 fewer European tourists travelling to Barbados. In economics the cross elasticity of demand measures the responsiveness in the quantity demanded of one good when the price for another good changes. When the cross elasticity of demand is negative the good or in this case the competing destination Barbados would be viewed as a complementary destination to the OECS EPA signatories

The coefficient sign of OECSCPI is positive indicating that a 1% increase will result in 820 additional European tourists visiting the OECS EPA signatories. The fact that European tourism demand for Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines increases when the OECSCPI variable increases indicates that European tourists are not price sensitive. Put differently, demand in this instance is price inelastic. Therefore, these OECS tourist destinations could be classified as Veblen goods which are types of luxury

goods for which demand increases as price increases. The assertion that tourism is regarded as a luxury product or service is well supported in the literature on tourism demand (Tsounta 2008) and (Onafowora and Owoye 2012). Veblen goods are a contradiction to the law of demand and supply and are illustrated graphically by an upward sloping demand curve.

There are benefits to be derived by destination countries in circumstances where the price variable indicates that tourism demand is inelastic. (Onafowora and Owoye 2012: 169) in their research observed “This piece of information could be useful to tourism planners and policy makers in the formulation of appropriate policies and strategies to increase tourism revenues. Since the demand is relatively price inelastic, any change in the pricing policy that affects tourism prices would lead to a less than proportionate change in the demand for tourism by foreign visitors. Economic theory suggests that when a good or service is price inelastic, raising the price will enhance revenues with negligible adverse impacts on the quantity sold. Therefore, the implication for the tourism industries in the destination countries is that the governments can maximise tourist expenditures and tourism revenues through the imposition of higher taxes and fees on the provision of various tourist services such as hotels, restaurants and transportation.”

Additionally, the coefficient of the room supply RS variable is positive a 1% increase in room supply will yield a 20% increase in European tourist arrivals. One could conclude that European tourists are interested in the high-end types of accommodation that are currently being constructed across the Eastern Caribbean. Earlier in chapter 6 it was indicated that the ECLAC 2015 Report on Foreign Direct Investment in Latin America and the Caribbean stated this type of accommodation was increasing across the OECS. It therefore means that the OECS governments may want to increase this type of accommodation product offering to attract more European tourists.

In the short run the error correction term is -.642 and its P value is 0.04 making it statistically significant at the 5% level. This result is evidence of cointegration across the panel of countries and any deviations from long run equilibrium are corrected at

the speed of adjustment of 64.2%. The importance of a negative error correction term which is statistically significant is that it illustrates the existence of a long-run cointegration relationship among the variables as was indicated in chapter 6.

Across the panel of countries, in the short run none of the variables is a significant determinant of tourist arrivals and the coefficient of the EPA has a negative sign indicating that the trade agreement is responsible for 110 fewer European visitors arriving into the sub region. This may be attributed to the effects of the Global Financial Crisis which unfolded in 2008 the same year that the EPA was signed. This finding contrasts with those of (Cali et al 2008) which indicated that annual tourist arrivals in Mauritius rose sharply from 2005 onwards after a new air access policy gradually liberalised bilateral air services agreements to key countries in Europe, Africa and Asia.

TABLE 14. PMG ESTIMATION OF PANEL ARDL (2, 1, 1, 1, 1) – GENERAL MODEL.

Dependent Variable: D(ETA)				
Method: ARDL				
Sample: 1999 2013				
Included observations: 90				
Maximum dependent lags: 2 (Automatic selection)				
Model selection method: Akaike info criterion (AIC)				
Dynamic regressors (1 lag, automatic): EUGDPPC OECSCPI BDSCPI RS				
Fixed regressors: EPA C				
Number of models evaluated: 2				
Selected Model: ARDL(2, 1, 1, 1, 1)				
Note: final equation sample is larger than selection sample				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Long Run Equation				
EUGDPPC	-0.005351	0.001275	-4.196594	0.0001***
OECSCPI	820.3164	77.86877	10.53460	0.0000***
BDSCPI	-452.6792	34.33659	-13.18358	0.0000***
RS	20.35153	1.728131	11.77661	0.0000***

SHORT RUN EQUATION				
COINTEQ01	-0.642732	0.305951	-2.100765	0.0407**
D(ETA(-1))	0.107366	0.151344	0.709413	0.4814
D(EUGDPPC)	-0.018972	0.012534	-1.513728	0.1364
D(OECSCPI)	-380.7660	425.7938	-0.894250	0.3755
D(BDSCPI)	-128.5392	219.3777	-0.585926	0.5606
D(RS)	-6.716311	5.393648	-1.245226	0.2189
EPA	-110.2270	2015.411	-0.054692	0.9566
C	-6321.200	2309.056	-2.737569	0.0086
Mean dependent var	-69.23333	S.D. dependent var		6129.982
S.E. of regression	5755.432	Akaike info criterion		17.14925
Sum squared resid	1.66E+09	Schwarz criterion		18.48747
Log likelihood	-822.6116	Hannan-Quinn criterion.		17.69114
*Note: p-values and any subsequent tests do not account for model selection				

*** ** and * denotes significance at the 1%, 5% and 10% level.

SOURCE: AUTHOR (2018)

At the country level the short run estimates in Table 15 below illustrate that both ETA and EUGDPPC lagged are the only variables which are found to be statistically significant determinants of European tourism demand in each island. The EPA is not significant. The error correction term is statistically significant and negative in all countries except Dominica which has a positive error correction term. Therefore, in such cases as stated earlier in chapter 6 this evidence of long run cointegration. In the case of Dominica there would be no evidence of long run cointegration. St. Vincent and the Grenadines is the only country whose error correction term is lower than -1

TABLE 15. PMG ESTIMATION OF PANEL ARDL (2 1 1 1 1) – COUNTRY LEVEL

ANTIGUA AND BARBUDA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.612792	0.062916	-9.739899	0.0023***
D(ETA(-1))	0.333681	0.053186	6.273894	0.0082***
D(EUGDPPC)	-0.009268	0.003715	-2.494470	0.0881*
D(OECSCPI)	557.5899	1944691.	0.000287	0.9998
D(BDSCPI)	679.4334	1700789.	0.000399	0.9997
D(RS)	-3.894642	1622.180	-0.002401	0.9982
EPA	-7658.165	1.14E+08	-6.72E-05	1.0000
C	-8849.192	96317251	-9.19E-05	0.9999

DOMINICA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	0.295239	0.037226	7.930967	0.0042**
D(ETA(-1))	-0.449731	0.061621	-7.298286	0.0053*
D(EUGDPPC)	0.013237	3.59E-05	369.1969	0.0000***
D(OECSCPI)	587.9401	62946.97	0.009340	0.9931
D(BDSCPI)	-22.80709	37510.08	-0.000608	0.9996
D(RS)	-29.97203	205.6823	-0.145720	0.8934
EPA	-150.6468	1294363.	-0.000116	0.9999
C	3430.488	13154088	0.000261	0.9998

GRENADA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.623085	0.074360	-8.379267	0.0036***
D(ETA(-1))	0.327759	0.068028	4.818007	0.0170**
D(EUGDPPC)	-0.046341	0.000415	-111.6111	0.0000***
D(OECSCPI)	-214.4667	1362128.	-0.000157	0.9999
D(BDSCPI)	-472.4059	866644.6	-0.000545	0.9996
D(RS)	-1.559349	200.1930	-0.007789	0.9943
EPA	3302.126	22160943	0.000149	0.9999
C	-7919.706	38074721	-0.000208	0.9998

ST. KITTS AND NEVIS

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.146297	0.003890	-37.60528	0.0000***
D(ETA(-1))	-0.281801	0.051322	-5.490859	0.019**
D(EUGDPPC)	-0.008905	7.53E-05	-118.3048	0.0000***
D(OECSCPI)	-223.7139	196507.5	-0.001138	0.9992
D(BDSCPI)	-353.1047	258404.8	-0.001366	0.9990
D(RS)	-8.596746	11.53430	-0.745320	0.5102
EPA	-1094.659	5362661.	-0.000204	0.9998
C	-3663.448	6227662.	-0.000588	0.9996

ST. LUCIA

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-0.846423	0.125269	-6.756825	0.0066***
D(ETA(-1))	0.376838	0.119200	3.161385	0.0508***
D(EUGDPPC)	-0.066119	0.001356	-48.75241	0.0000***
D(OECSCPI)	-2230.960	3293644.	-0.000677	0.9995
D(BDSCPI)	-826.3026	1516432.	-0.000545	0.9996
D(RS)	10.42494	634.2931	0.016436	0.9879
EPA	6883.331	56896853	0.000121	0.9999
C	-7766.050	94369336	-8.23E-05	0.9999

ST. VINCENT AND THE GRENADINES

Variable	Coefficient	Std. Error	t-Statistic	Prob. *
COINTEQ01	-1.923036	0.027231	-70.61986	0.0000***
D(ETA(-1))	0.337448	0.007260	46.47760	0.0000***
D(EUGDPPC)	0.003563	9.48E-06	375.8940	0.0000***
D(OECSCPI)	-760.9849	31937.66	-0.023827	0.9825
D(BDSCPI)	223.9520	19174.67	0.011680	0.9914
D(RS)	-6.700041	9.711643	-0.689898	0.5398
EPA	-1943.349	3904770.	-0.000498	0.9996
C	-13159.29	3.21E+08	-4.10E-05	1.0000

*** ** and * denotes significance at the 1%, 5% and 10% level.

SOURCE: AUTHOR (2018)

7.5 CONCLUSION

The purpose of this chapter was to ascertain what effect liberalizing trade in tourism services under the EPA has had on European tourist arrivals into the OECS EPA signatories focusing on the period 1997 – 2013. In doing so it relied on Panel ARDL modelling given the small size of the dataset for reasons elucidated earlier on in chapter 6.

The results of the Panel ARDL estimation illustrated that EUGDPPC, OECSCPI, BDSCPI and Room Stock were all statistically significant determinants of European tourism demand during the period 1997– 2013. Income and prices in a substitute destination proxied by EUGDPPC and BDSCPI respectively have a negative effect on tourism demand. Conversely, OECSCPI and Room stock each have had a positive impact on such demand.

The EPA which is the main variable of interest in this study has a negative effect on European tourism demand concerning the OECS EPA signatories. It is argued that due to the emergence of the Global Financial Crisis in 2008 the same year the EPA was finalized this cataclysmic economic event negatively affected demand for international travel by consumers living in the developed world.

The research is important since it is an original contribution to the discourse on trade policy development in the Caribbean which has modelled the effect of the EPA on European tourism demand regarding the OECS. Finally, these findings have important consequences for the future of tourism planning and development in the OECS as the results indicated that a 1% increase in room supply will lead to a 20% increase in European tourist arrivals. This illustrates that OECS governments should continue constructing the high-end type of product offering regarding accommodation which is currently available in the sub-region to continually attract European tourists.

CHAPTER EIGHT

CONCLUSION

This dissertation is an attempt to fill a gap in the body of literature on trade policy development in the Caribbean. It focused on the liberalization of trade in tourism services between the EU and the OECS that was promoted under the EPA.

As was stated in chapter 1 previous trade agreements between Europe and the Caribbean focused solely on trade in goods. Therefore, the liberalization of trade in services (including tourism services) under the EPA is a radical trade policy reform. The study modelled the effect of the EPA on inflows of tourism-related foreign direct investment and European tourism demand for the six OECS EPA signatories. Given the small size of the dataset Panel ARDL modelling was chosen as the econometric method to be used in this study.

Subsequently, chapter 2 illustrated that economic integration is a dynamic process in the Caribbean and the liberalization of trade in services is an outcome. More importantly the EPA was shown to be extremely thorough in its treatment of tourism when compared to other regional trade agreements that inform trade relations between the OECS and its trading partners.

Chapter 3 demonstrated that the classical and neo-classical trade theories could be applied to services, whilst regional trade theory now covers services and New New Trade theory is linked to services through empirical research undertaken by (Breinlich and Criscuolo 2011)

Afterwards the theories of foreign direct investment and tourism demand were reviewed in chapter 4. In the process it was shown that the theories of FDI could be grouped according to their focus. Thus, they are microeconomic, macroeconomic and the Eclectic theory of Dunning. Alongside these are other theories and theories of the multinational enterprise. The microeconomic theories focused on issues pivotal to firms which were instrumental in causing them to establish foreign

operations. Meanwhile, the macroeconomic theories focused on the characteristics of countries that would attract foreign investors. In this regard the main finding was that the horizontal FDI theory of the MNE developed by (Markusen 1984) is best suited for describing the phenomenon of tourism related foreign direct investment in the Caribbean. In the second half of chapter 4 the focus shifted to examining the theory of demand which was applicable to tourism demand.

In chapter 5 several sets of literature that are pivotal to the dissertation were reviewed. The exercise revealed that the EPA will have negative economic effects on CARIFORUM states regarding trade in goods and that many of the service sectors within the EPA are characterised by provisions which are 'WTO Plus'. The phrase 'WTO Plus' is used within the literature to refer to provisions which exceed commitments that had previously been negotiated at the multilateral level within the World Trade Organisation concerning the exact same issues. This has effectively reduced the policy space of the OECS EPA signatories concerning these issues.

Additionally, there is a paucity of academic research concerning trade in services in the Caribbean, the liberalization of trade in services in the Caribbean and foreign direct investment in the Eastern Caribbean. As such this dissertation is a contribution to these subjects which are in their formative years of development. Furthermore, it has been recognised that the academic debate on the liberalization of trade in services is dynamic in nature. It has constantly been evolving since academics first started conducting research on the issue almost thirty years ago.

The focus of the dissertation then shifted to the research questions as outlined in chapter 1 and they were explored at length in chapters 6 and 7. Econometric modelling was executed using the Panel ARDL technique to ascertain the effect of the EPA among other variables on inflows of tourism related foreign direct investment and European tourism demand for the OECS EPA signatories in chapters 6 and 7 respectively. It was found that in the long run the EPA would negatively affect inflows of investment in the tourism sector and European tourism demand for the OECS EPA signatories.

The study can be regarded as unique and an original contribution to the body of knowledge on trade policy development in the Caribbean for three important reasons.

First, to the best of my knowledge this is the only study to date that has modelled the effect of the EPA on inflows of tourism related foreign direct investment concerning the OECS EPA signatories. Second, this is the first study on the Caribbean where a trade agreement has been included as a determinant of tourism demand for destinations in the region. Third, it is the first study which uses actual data concerning investment in the tourism sector within several islands in the Caribbean.

The study had several limitations. First, the sample size was small as the study focused on six countries and data concerning tourism related foreign direct investment was limited to the period of 1997-2013. It has been noted that small datasets can be problematic when building a precise prediction model. Writing on issues faced in the manufacturing sector (Lateh et al 2017: 1) observed “So if a small dataset is used as a training sample of a model, it might significantly affect the prediction uncertainty because of lack of information...” Second, there were no prior econometric studies examining the effect of tourism liberalization on inflows of foreign investment to the tourism sector in a group of destinations and tourism demand for those destinations. As such, there was no chance to engage in comparative analysis of results between this study and any previous studies. Third, as the EPA came into effect in 2009 at the height of the Global Financial Crisis (GFC) this might have dampened its effect whereas a longer time period would have allowed the effect of the GFC to be less. Fourth, (Chudik et al 2015:7-8) have noted “However, the ARDL has a number of drawbacks. The sampling uncertainty could be large when the speed of convergence towards the long run relation is rather slow and the time dimension is not sufficiently long…..Underestimating the lag orders leads to inconsistent estimates, whilst overestimating the lag orders could result in loss of efficiency and low power when the ARDL long-run estimates are used for inference.” Fifth (Oxera 2010) has pointed out that the presence of a stochastic trend

in the data has an unwanted effect on the modelling process. The report by (Oxera 2010:4) stated “if there is a stochastic (random) trend present in the data the dynamics in an ARDL model will be approximating this trend rather than modelling the ‘real dynamics’…..The presence or otherwise of such a stochastic trend is an empirical issue and is difficult to identify given the small number of time series observations in the dataset available for this study. (There are a maximum of 18 time series observations available in the dataset).” This argument can be applied to this study where there were 17 time series observations. Sixth, there is the issue of bias and its impact on panel datasets characterised by small time series. It has been argued by (Pesaran Shin and Smith 1999:4) “For small T, all of the estimators (group-specific, MG, PMG and fixed effects) will be subject to the familiar downward bias on the coefficient of the lagged dependent variable. Because the bias is in the same direction for each group, averaging or pooling does not reduce the bias.”

The key lessons learnt from undertaking this study are that market size and cost of living proxied by gross domestic product per capita and inflation rate respectively are significant determinants of tourism related foreign direct investment. Additionally, income, price, prices in a substitute destination and room supply are significant determinants of European tourism demand concerning the OECS EPA signatories. Therefore, it is imperative for the governments within these microstates to pursue economic policies which will maintain or reduce the cost of living and prices in these small island states to ensure inflows of investment in the tourism sector and European tourist arrivals. Similarly, the governments in these countries may wish to pursue the policy of constructing high end tourism accommodation to attract more European tourists. Also, the liberalization of trade in tourism services proxied by the EPA is not a strong or significant determinant of tourism related foreign direct investment or European tourism demand. These findings are opposite to those of (Font et al 2012) and (Cali et al 2008) who investigated the identical issues.

Equally important is the fact that while implementing a policy of liberalization is meant to yield positive outcomes it can sometimes result in negative effects for consumers as was seen in chapter 2.

Regarding future work, this study could be extended to encompass the other CARIFORUM states to ascertain the effect of the EPA on tourism investment and European tourism demand for travel to the entire CARIFORUM grouping Additionally, such a study could be replicated within the Pacific grouping and any of the African trading blocs if they ever conclude full EPAs with the European Union resulting in the liberalization of trade in tourism services. Such studies would facilitate the comparison of results across countries and provide useful insight for the future of tourism planning and development and marketing across much of the developing world.

BIBLIOGRAPHY

Acevedo, S., Han, L., Kim, H.S. and Laframboise, N. (2016) Flying to paradise: the role of airlift in the Caribbean tourism industry. WP/16/33 Washington D.C, International Monetary Fund.

Adeleye, N, Osabuohien, E, Bowale, E, Matthew, O. and Oduntan E. (2018) Financial reforms and credit growth in Nigeria: empirical insights from ARDL and ECM techniques. *International review of applied economics* 32 (6), 807-820.

Aggarwal, J. P. (1980) Determinants of foreign direct investment: a survey. *Review of world economics* 116 (4), 739-773.

Aggarwal, R. and. Weekly, J.K. (1982) Foreign operations of third world multinationals: a literature review and analysis of Indian companies. *The journal of developing areas* 17 (1), 13-30.

Alam, A., Malik, O.M, Ahmed, M. and Gaadar, K. (2015) Empirical analysis of tourism as a tool to increase in a developing country: evidence from Malaysia. *Mediterranean journal of social sciences* 6 (4), 201-206.

Aliber, R. Z. (1970) A Theory of Direct Foreign Investment. In Kindleberger, C. P. (editor) *The international corporation.* London: The Massachusetts Institute of Technology. 17-34.

Aliha, P.M., Sarmidi, T, Shaar, A. H. and Said, F.F. (2017) Using ARDL approach to cointegration for investigating the relationship between payment technologies and money demand on a world scale. *Regional science inquiry* 9 (2), 29-37.

Alleyne, D. (2006) Can seasonal unit root testing improve the forecasting accuracy of tourist arrivals? *Tourism economics* 12 (1), 45-64.

Alleyne, D. and Boxhill, I. (2003) The Impact of Crime on Tourist Arrivals in Jamaica. *International Journal of Tourism Research* 5 (5), 381-391.

Aliha, P.M., Sarmidi, T, Shaar, A. H. and Said, F.F. (2017) Using ARDL approach to cointegration for investigating the relationship between payment technologies and money demand on a world scale. *Regional science inquiry* 9 (2), 29-37.

Anastasiadou, C. and De Sausmarez, N. (2006) The role of regional trading blocs in the development and management of tourism: an analysis of the European Union and the Association of Southeast Asian Nations*. International Journal of Tourism Research* 8 (5), 317-332.

Anderson, R., Taylor, T. G. and Josling, T. E. (2003) The Caribbean and the Banana Trade. In Josling, T. E. and. Taylor, T.G. (editors) *Banana Wars: The anatomy of a trade dispute.* Wallingford, Oxfordshire: CAB International. 123-150.

Apergis, N. and. Payne, J.E. (2012) Tourism and economic growth in the Caribbean - evidence from a panel error correction model. *Tourism economics* 18 (2), 449-456.

Aradhyula, S. and Tronstad, R. (2003) Does tourism promote cross-border trade? *American journal of agricultural economics* 85 (3), 569-579.

Archer, B. (1980) Forecasting demand: quantitative and intuitive techniques. *International journal of tourism management* 1 (1), 5-12.

Archibald, X., La Corbinière, J. and Moore W. (2008) Analysis of Tourism Competitiveness in the Caribbean: A Gravity Model Approach. Central Bank of Barbados.

Archer, B. (1980) Forecasting Demand: Quantitative and intuitive techniques. *International Journal of Tourism Management* 1 (1), 5-12.

Arguello, R. (2000) Economic Integration: An Overview of Basic Economic Theory and Other Related Issues. Borradores de Investigación 004326, Universidad Del Rosario.

Armstrong, C. W. G. (1972) International tourism: coming or going: the methodological problems of forecasting. *Futures* 4 (2), 115-125.

Arnold, J. M., Javorick, B.S. and Mattoo, A. (2011) Does services liberalization benefit manufacturing firms? evidence from the Czech Republic. *Journal of international economics* 85 (1), 136-146.

Arthur, O. (2008) The economic partnership agreement between CARIFORUM and the EU and the building of a post-colonial economy in the Caribbean. *Journal of Eastern Caribbean studies* 33 (2), 24-44.

Asghar, N. Qureshi, S. and Nadeem, M. (2015) Institutional quality and economic growth: Panel ARDL analysis for selected developing economies of Asia. South Asian studies: *A research journal of South Asian studies* 30 (2), 381-403.

Assaf, A.G. Josiassen, A. and Agbola, F.W. (2015) Attracting international hotels: Locational factors that matter most. *Tourism management* 47, 329-340.

Axline, W. A. (1978) Integration and development in the Commonwealth Caribbean: the politics of regional negotiations. *International organization* 32 (4), 953-973.

Baier, S. L, Bergstrand, J.H. and Egger, P. (2007) The new regionalism: causes and consequences. *Integration and trade* 26 (1), 9-26.
Balassa, B. (1961) The theory of economic integration. Homewood, Illinois: Irwin.

Balistreri, E., J., Rutherford, T. F. and Carr, D.G. (2009) Modelling services liberalization: the case of Kenya. *Economic modelling* 26 (3), 668-679.

Bangake, C. and Eggoh, J.C. (2012) Pooled mean group estimation on international capital mobility in African countries. *Research in economics* 66 (1), 7-17.

Barbi, F.C. and Da Costa, C.J. (2016) Does FDI matter for sustainable growth in sub-Saharan Africa? Evidence from a heterogeneous panel. Quantum global research lab Working Paper 2016/03.

Barrowwclough, D. (2007) Foreign investment in tourism and small island developing states. *Tourism economics* 13 (4), 615-638.

Belle, N. and Bramwell, B. (2005) Climate change and small island tourism: Policy maker and industry perspectives in Barbados. *Journal of travel research* 44 (1), 32-41.

Belloumi, M. (2014) The relationship between trade, FDI and economic growth in Tunisia: An application of the autoregressive distributed lag model. *Economic systems* 38, 269-287.

Bendell, J. and Font, X. (2004) Which tourism rules? green standards and GATS. *Annals of tourism research* 31 (1), 139-156.

Benn, D. and Hall, K. (2006) *Production integration in CARICOM*. Kingston and Miami: Ian Randle Publishers.

Bernal, R. (2008) CARIFORUM EU economic partnership agreement negotiations: why and how. *Journal of Eastern Caribbean studies* 33 (2), 1-21.

Bernard, A. B., Jensen, J.B, Redding, S.J. and Schott, P.K. (2007) Firms in international trade. *Journal of economic perspectives* 21 (3), 105-130.

Bernard, A. B., Jensen, J.B. and Lawrence, R.Z. (1995) Exporters, jobs and wages in U.S Manufacturing: 1976-1987. Brookings Papers: Microeconomics 1995, 67-119.

Bernard, A. B. and. Jensen, J.B. (1999) Exceptional Exporter Performance: Cause, Effect or Both. *Journal of international economics* 47, 1-25.

Besanko, D. and Braeutigam, R. (2011) Microeconomics 4th edition. USA. Wiley and Sons Inc.

Bezuidenhout, Z. and Grater, S. (2016) The dimensions of FDI in the tourism sector in Africa. *The journal of applied business research* 32 (4), 1115-1136.

Bhagwati, J. and Panagariya, A. (1996) The theory of preferential trade agreements: historical evolution and current trends. *The American economic review* 86 (2), 82-87.

Bhagwati, J. N. (1970) Trade Diverting Customs Union and Welfare Improvement: A Clarification. Cambridge, Massachusetts, Massachusetts Institute of Technology.

Bianculli, A. (2006) Trade policy-making in the context of new regionalism: a comparative "two-level" approach to regional integration in Latin America. in ECPR joint sessions of workshops. Nicosia.

Bildirici, M. E. (2014) Relationship between biomass energy and energy and economic growth in transition countries: panel ARDL approach. *Global change biology bioenergy* 6 (6), 717-726.

Bishop, M. (2010) Tourism as a small state development strategy. *Progress in development studies* 10 (2), 99-114.

Bishop, M. L., Heron, T. and Payne, A. (2012) Caribbean development alternatives and the CARIFORUM EU economic partnership agreement. *Journal of international relations and development* 16 (1), 82-110.

Blanc, E. and Winchester, N. (2012) The impact of the EU emissions trading system on air passenger arrivals in the Caribbean. *Journal of travel research* 52 (3), 353-363.

Blomström, M. and Kokko, A. (1997) Regional integration and foreign direct investment. World Bank.

Blonigen, B. A., Davies, R.B. and Head, K. (2003) Estimating the knowledge capital model of the multinational enterprise: *Comment.* 93 (1), 980-994.

Bolaky, B. (2011) Tourism competitiveness in the Caribbean. CEPAL *review* 104 (August), 55-76.

Brahmbhatt, J. and Menezes, R. (2013) On the relation between tourism and trade: a network experiment. In *2nd Network Science Workshop IEEE.* West Point New York: Vol. 1. The institute of electrical and electronic engineers. 74-81.

Brainard, S. L. (1997) An empirical assessment of the proximity-concentration trade-off between multinational sales and trade. *The American economic review* 87 (4), 520-544.

Brakke, M. (2004) International tourism, demand and GDP implications: a background and empirical analysis. undergraduate *Economic review* 1 (1), 1-38.

Branconier, H, Norback, P. J. and Urban, D. (2002) Vertical FDI revisited. IUI working paper No.579. The research institute of industrial economics, Stockholm.

Breinlich, H. and Criscuolo, C. (2011) International trade in services: a portrait of importers and exporters. *Journal of international economics* 84 (2), 188-206.

Brewster, H. (2010) The Anti-Development Dimension of the European Community's Economic Partnership Agreement: Implications for CARICOM. In Hall, K. A. and Chuck-A.-Sang., M. (editors) *CARICOM: Policy options for international engagement*. Kingston, Jamaica: Ian Randle Publishers. 248-257.

Brida, J.G. and Fabbro, G. (2010) The contribution of tourism on economic growth in Central America and the Caribbean. *Journal of tourism research* 2 (2), 116-124.

Brown, C. B. (2015) Tourism, crime and risk perception: An examination of broadcast media's framing of negative Aruban sentiment in the Natalee Holloway case and its impact on tourism demand. *Tourism management perspectives* 16 (October), 266-277.

Brown, D. K., Deardoff, A.V. and Stern, R.M. (1995) Modelling multilateral trade liberalization in services. In Third International Conference on the Asia-Pacific Economy "International Trade in Services". Brisbane, Australia.

Browne, R. and Moore, W. (2012) How quickly do Caribbean tourist arrivals rebound after exogenous shocks? Working Paper Central Bank of Barbados

Buckley, P. and Geyikdagi, N. (1996) Explaining foreign direct investment in Turkey's tourism industry. *Transnational corporations* 5 (3), 1-12.

Buckley, P. J. and Casson, M. (1981) The optimal timing of a foreign direct investment. *The economic journal* 91 (361), 75-87.

Buckley, P. J. and Casson, M. (1991) *The Future of the Multinational Enterprise.* 2nd edition. London: The Macmillan Press Limited.

Bull, A. (1990) Australian tourism: effects of foreign investment. *Tourism management* 11 (4), 325-331.

Burfisher, M. E. (2004) Regionalism: Old and New, Theory and Practice. Washington D.C, International Food Policy Research Institute.

Busse, M. and. Lüehje, S. (2006) Should the Caribbean countries sign an economic partnership agreement with the EU? challenges and strategic options. *Journal of economic integration* 22, (3), 598-618.

Bussolo, M. (2002) CARICOM trade policy scenarios. a general equilibrium evaluation for Jamaica. *Integration and trade* 6, (16), 157-180.

Buthe, T. and. Milner, H.V. (2008) The politics of foreign direct investment in to developing countries: Increasing FDI through international trade agreements? *American journal of political science* 52 (4), 741-762.

Butler, R. W. (1980) The concepts of a tourist area cycle of evolution: implications for management of resources. *The Canadian geographer* 24 (1), 5-12.

Calvet, A. L. (1981) A synthesis of foreign direct investment theories and theories of the multinational firm. *Journal of international business studies* 12 (1), 43-59.

Cali, M, Ellis, K. and Te Velde, D.W. (2008) The contribution of services to development and the role of trade liberalisation and regulation. Working Paper 298. Overseas Development Institute.

Cannonier, C., Francis, B. and Lorde, T. (2007) Foreign direct investment and trade in the Eastern Caribbean Currency Union. *Journal of Eastern Caribbean studies* 32 (3), 23-49.

Cannonier, C. and Burke, M.G. (2017) Tourism and financial development in small states: evidence from Caribbean countries. *Tourism economics* 23 (6), 1369-1377.

Carbaugh, R. J. (2011) *International economics.* 14th edition. United States of America: South-Western Cengage Learning.

Carey, K. (1991) Estimation of Caribbean tourism demand: issues in measurement and methodology. *Atlantic economic journal* 19 (3), 32-40.

Carr, D. L., Markusen, J.R. and Maskus, K.E. (2001) Estimating the knowledge capital model of the multinational enterprise. *The American economic review* 91 (3), 693-708.

Cashman, A., Cumberbatch, J. and Moore, W. (2012) The effects of climate change on tourism in: evidence from the Barbados case. *Tourism review* 67 (3), 17-29.

Cavlek, N. (2002) Tour operators and Destination Safety. *Annals of tourism research* 29 (2), 478-496.

Chai, J. and Goyal, R. (2008) Tax concessions and foreign direct investment in the Eastern Caribbean Currency Union. WP 08/257. Washington D.C, International Monetary Fund.

Chang, S. C. and Lai, F.T. (2011) Intra-continental and intercontinental service trade in the travel and tourism industry. *Tourism economics* 17 (5), 963-982.

Chasapopoulos, P., Den Butter, F.A.G. and Mihaylov, E. (2014) Demand for tourism in Greece: A panel data analysis using the gravity model. *International Journal of Tourism Policy* 5 (3), 173-191.

Chase, C. S. K. (2011) MFN in the CARIFORUM-EC Economic Partnership Agreement: Policy Blunder or Legal Inconsistency. *Legal issues of economic integration* 38 (2), 189-197.

Chen, C. (1997) The Location Determinants of Foreign Direct Investment in Developing Countries. Adelaide, Australia, Chinese Economics Research Centre.

Chirwa, T.G. and Odhiambo, N.M. (2018) The determinants of public debt in the Euro area: A Panel ARDL approach. Working Paper 02/2018 UNISA Economic Research Working Paper Series.

Cho, V. (2010) A study of the non-economic determinants of tourism demand. *International journal of tourism research* 12 307-320.

Chudik, A, Mohaddes, K, Pesaran, M.H. and Raissi, M. (2015) Long run effects in large heterogeneous panel data models with cross sectionally correlated errors. Working Paper Number 223 Federal reserve bank of Dallas.

Ciurniak, D. (2011) *New-New Trade Policy*. Ontario Canada, Queen's Economics Department.

Coase, R.H. (1937) The nature of the firm. *Economica.* 4 (16), 386-405.

Cooper, C. A. and Massell, B.F. (1965a) A new look at customs union theory. *The economic Journal* 75 (December), 742-747.

Cooper, C. A. and Massell, B.F. (1965b) Toward a general theory customs unions for developing countries. *Journal of political economy* 73 (5), 461-476.

Cooper, C, Fletcher, J, Fyall, A, Gilbert, D. and Wanhill, S. (2008) Tourism principles and practices 4th edition Prentice Hall London.

Cornilessen, S. (2008) Tourism and the GATS: debates, progress and implications for the African continent. *Tourism review international* 12 (3-4), 187-202.

Craigwell, R. A. and Worrell, D. (2008) The competitiveness of selected Caribbean tourism markets. *Social and economic studies* 57 (1), 72-107.

Crawford, J. and Laird, S. (2000) Regional trade agreements and the WTO. Nottingham, U.K, Centre for Research in Economic Development and International Trade.

Crompton, J. L. (1979) Motivations for pleasure vacation. *Annals of tourism research* 6 (4), 408-424.

Crouch, G. I. (1994) The study of international tourism demand: A review of findings. *Journal of travel research* 32 (4), 12-23.

Culiuc, A. (2014) Determinants of international tourism. IMF Working Paper WP/14/82 International Monetary Fund.

Dann, G. M. S. (1981) Tourist motivation: An Appraisal. *Annals of tourism research* 8 (2), 187-219.

De Albuquerque, K. and Mc Elroy, J. (1999) Tourism and Crime in the Caribbean. *Annals of tourism research* 26 (4), 968-984.

Deardoff, A. (1985) Comparative advantage and international and investment in services. Ann Arbor Michigan, University of Michigan.

Demirhan, E. and Masca, M. (2008) Determinants of foreign direct investment flows to developing countries: a cross-sectional analysis. *Prague economic papers* 17 (4), 356-369.

Desautels, B. and. Christensen, J. (1990) Hospitality trade development in Canada: mergers, acquisitions and foreign investment. *Tourism management* 11 (4), 305-314.

Dhankar, S. (2017) Foreign direct investment and its impact upon the Indian hospitality industry. *African journal of hospitality, tourism and leisure* 6 (1), 1-17.

Dodson, L. (2013) The EU-CARIFORUM economic partnership agreement (EPA): an assessment of the static welfare impacts on Guyana. *World journal of entrepreneurship management* 9 (4), 272-284.

Dunning, J. H. (1973) The determinants of international production. *Oxford economic papers* 25 (3), 289-336.

Dunning, J. H. (1977) Trade, Location of Economic Activity and the Multinational Enterprise: A Search for an Eclectic Approach. In Ohlin, B., Hesselborn, P.O. and Wijkman, P.M. (Editors) *The International Allocation of Economic Activity*. London: Palgrave, Macmillan. 395-418.

Dunning, J. H. (1980) Toward an eclectic theory of international production and some empirical tests. *Journal of international business studies* 11 (1), 9-31.

Dunning, J. H. and Kundu, S.K. (1995) The internationalization of the hotel industry: some findings from a field study. *Management international review* 35 (2), 101-133.

Dunning, J. H. (1998) Location and the multinational enterprise: a neglected factor? *Journal of international business studies* 29 (1), 45-66.

Dunning, J. H. (2001) The eclectic (OLI) paradigm of international production: past, present and future. *International journal of the economics of business* 8 (2), 173-190.

Dunning, J. H. and Rugman, A.M. (1985) The influence of Hymer's dissertation on the theory of foreign direct investment. *The American review* 75 (2), 228-232.

Du Pont, M. (2000) Foreign direct investment in transitional economies: A case study of China and Poland. Macmillan Press Inc. Houndmills, Basingstoke, Hampshire, U.K.

Dwyer, L. (2005) Tourism Investment in the South Pacific. In Cooper, C. A. and Hall, M.C. (Editors) *Oceania: A Tourism Handbook*. Clevedon: Channel View Publications. 297-307.

Dwyer, L. and Forsyth, P. (1994) Foreign tourism investment: motivation and impact. *Annals of tourism research* 21 (3), 512-537.

Dwyer, L., Forsyth, P. and Dwyer, W. (2010) Tourism economics and policy: aspects of tourism. Bristol, U.K: Channel View Publications.

Easton, S. T. (1998) Is tourism just another commodity? links between commodity trade and tourism. *Journal of economic integration* 13 (3), 522-543.

Eaton, J., Kortum, S. and Kramarz, F. (2004) Dissecting trade: firms, industries and export destinations. *The American economic review* 94 (2), 150-154.

Eaton, J., Kortum, S. and Kramarz, F. (2008) An Anatomy of International Trade. Cambridge, Massachusetts, USA.

Eaton, J. and Kortum, S. (2002) Technology, geography and trade. *Econometrica* 70 (5), 1741-1779.

Economic Commission for Latin America and the Caribbean. (2002) implications of the liberalisation of telecommunications for the Caribbean.

Economic Commission for Latin America and the Caribbean (2007) Promoting economic links between the integration schemes of Latin America and the Caribbean. a CARICOM perspective on selected issues. Santiago, Chile.

Economic Commission for Latin America and the Caribbean (ECLAC) (2010) The tourism sector and the global economic crisis development implications for the Caribbean. Santiago, Chile.

Economic Commission for Latin America and the Caribbean (ECLAC) (2015) Foreign direct investment in Latin America and the Caribbean. Santiago, Chile.

El-Agraa, A. M. (2007) The Theory of Economic Integration. In El Agraa, A. M. (editor) *The European Union: economics and policies*. Cambridge, United Kingdom: Cambridge University Press. 109-129.

Emmanuel, K. (2014) Shifting tourism flows in a changing climate: policy implications for the Caribbean. *Worldwide hospitality and tourism themes* 6 (2), 118-124.

Engle, R.F., and Granger, C. W. J. (1987) Cointegration and error correction. Representation, estimation and testing. *Econometrica* 2, 251-276.

Escaleras, M. and Register, C. A. (2011) Natural Disasters and foreign direct investment. *Land economics* 87 (2), 346-363.

Ethier, W. J. (1998) The new regionalism. *The economic journal* 108 (July), 1149-1161.

Ethier, W. J. (2007) The theory of trade policy and trade agreements: a critique. *European Journal of political economy* 23 (3), 605-623.

Evans, D., Holmes, P, Iacovone, L. and Robinson S. (2004) A Framework for evaluating regional trade agreements: deep integration and new regionalism. University of Sussex.

Evans, D. G., M, Ghoneim, A, Haynes-Prempeh, M, Holmes, P, Iacovone, L, Jackson, Iwanow, T, Robinson and Rollo, J. (2006) Assessing regional trade agreements with developing countries: shallow and deep integration, trade, productivity and economic performance. University of Sussex.

Faeth, I. (2009) Determinants of foreign direct investment - a tale of nine theoretical models. *Journal of economic surveys* 23 (1), 165-196.

Falk, M. (2016) A gravity model of foreign direct investment in the hospitality industry. *Tourism management* 55, 225-237.

Fauzel, S, seetanah, B and Sannassee, R.V. (2017) Analysing the impact of tourism foreign direct investment on economic growth: evidence from a small island developing state. *Tourism economics* 23 (5), 1042-1055.

Fazli, P. and Abbasi, E. (2018) Analysis of the validity of kuznets curve of energy intensity among d-8 countries: Panel-ARDL approach. International *Letters of social and humanistic sciences* 81, 1-12.

Feketekuty, G. (1988a) Does international trade theory apply to trade in services? international trade in services: an overview and blueprint for negotiations. Florida, USA: Ballinger Publishing Company.

Feketekuty, G. (1988b) International trade in services: an overview and blueprint for negotiations. american enterprise institute trade in services series. Florida, USA: Ballinger Publishing Company.

Fereidouni, H. G. and Al Malali, U. (2014) The interaction between tourism and FDI in real estate in OECD countries. *Current issues in Tourism* 17 (2), 105-113.

Ferrantino, M, Butcher, A., Babula, R. and Ingersoll, D. (1997) The dynamic effects of trade liberalization: an empirical analysis. No 3069. United States International Trade Commission, Washington DC 20436.

Fischer, C. and Gil-Alana, L.A. (2009) The nature of the relationship between international tourism and international trade: the case of German imports of Spanish wine. *Applied economics* 41, 1345-1359.

Fisher, R.A. (1932) Statistical methods for research workers. 4th edition Edinburgh. Oliver & Boyd.

Font, J. C., Porta, M.B., Herman, L. and Tovias, A. (2012) Foreign direct investment and the liberalization of trade in services: an evaluation of the Euro-Mediterranean Partnership (EMP) Influence. London, London School of Economics and Political Science.

Forsyth, P. and Dwyer, L. (2003) Foreign investment in Australian tourism: a framework analysis. *Journal of tourism studies* 14 (1), 67-77.

Francis, A. and Ullrich, H. (2008) CARIFORUM EPA and beyond: recommendations for negotiations on services and trade related issues in EPAs. Germany, Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH.

Francis, A. and Ullrich., H. (2009) Analysis of economic partnership agreements: trade in services case study of the CARIFORUM-EU agreement. In Qualmann, R. (editor) *How to ensure development friendly economic partnership agreements - lessons across regions.* Germany: Deutsche Gesellschaft Fur Technische Zusammenarbeit (GTZ). 65-100.

Franck, C. (1990) Tourism investment in Central and Eastern Europe: preconditions and opportunities. *Tourism management* 11 (4), 333-338.

Francois, J., Pindyuk, O. and Woerz, J. (2008) Trade effects of services trade liberalization in the EU. Institute for International and Development Economics.

Freckleton, M. (2013) Revealed comparative advantage of services exports in CARIFORUM countries. *Iberoamericana nordic journal of Latin American and Caribbean studies* 43 (1-2), 169-183.

Frenkel, M., Funke, K. And Stadtmann, K. (2004) A panel analysis of bilateral FDI flows to emerging economies. *Economic systems* 28 (3), 281-300.

Froot, K. A. and Stein, J. C. (1991) Exchange rates and foreign direct investment: an imperfect capital markets approach. *The quarterly journal of economics* 106 (4), 1191-1217.

Frost, F. A. and Shanka, T. (2001) Regionalism in tourism-the case for Kenya and Ethiopia. *Journal of travel and tourism marketing* 11 (1), 35-57.

Fry, D., Saayman, A. and Saayman, M. (2010) The relationship between tourism and trade in South Africa. *South African journal of economics* 78 (3), 287.

Fuinhas, J. A. and Marques, A.C. (2012) Energy Consumption and Economic Growth Nexus in Portugal, Italy, Greece, Spain and Turkey: An ARDL Bounds Test Approach (1965-2009). *Energy economics* 34 (2), 511-517.

Garner, B. (2017) Towards a European strategy on culture and development: learning from the CARIFORUM EU economic partnership agreement. *Politique Européenne* 56 (2), 146-168.

Gasiorek, M. and Haynes-Prempeh, M. (2006) The Caribbean region and the OECS: an overview. In Gasiorek, M, Litchfield, J, Haynes-Prempeh, M, Chwiejczak, J, Varela, G. and Winters, L A.(editors) *The impact of the epas of the Cotonou agreement on trade, production and poverty alleviation in the Caribbean region*. Poverty Research Unit. Sussex University.

Gasiorek, M. and Winters, L. A. (2004) What role for the EPAs in the Caribbean? *The world economy* 27 (9), 1335-1362.

Gatsinzi, J. and. Donaldson., R. (2009) Investment in the tourism industry: the Rwanda experience. *Journal for development support* 1, 33-49.

Gautum, V. and Kg, S. (2012) An empirical investigation about relationship between international trade and tourist arrival: evidence from India. *Business excellence and management* 2 (3), 53-62.

Gehrels, F. (1956-1957) Customs union from a single country viewpoint. *The review of economic studies* 24 (1), 61-64.

George, B. P. and Henthorne, T.L. (2007) Tourism and the general agreement on trade in services: sustainability and other developmental concerns. *International journal of social economics* 34 (3), 136-146.

Gerakis, A.S. (1965) Effects of exchange rate devaluation and revaluations on receipts from tourism. International Monetary Fund staff papers.

Gerrick, R. (2004) The Cotonou agreement: will it successfully improve the small island economies of the Caribbean? *Boston college international and comparative law review* 27 (1), 130 - 146.

Ghimire, K. B. (2001) Regional tourism and south-south economic cooperation. *The geographical journal* 167 (2), 99-110.

Girvan, N. (2008a) Caribbean integration and global Europe: Implications of the EPA for the CSME.

Girvan, N. (2008b) The effect of the Economic Partnership Agreement on the CSME: the fork in the road. *Journal of Eastern Caribbean studies* 33 (2), 45-69.

Girvan, N. (2008c) Implications of the CARIFORUM EU EPA.

Girvan, N. (2009) Implications of the Economic Partnership Agreement for the CSME. *Social and economic studies* 58 (2), 91-127.

Girvan, N. (2010a) CARICOM's elusive quest for economic integration. In Alleyne, F, Lewis-Bynoe, D. and Archibald, X. (editors) *Growth and Development Strategies in the Caribbean*. Barbados.: Caribbean Development Bank. 199-218.

Girvan, N. (2010b) Technification, sweetification, treatyfication: politics of the Caribbean-Eu economic partnership agreement. *Interventions* 12 (1), 100-111.

Girvan, N. (2012) Caribbean integration and global Europe: implications of the EPA for the CSME. In Hall, K. A. and Chuck-A.-Sang, M. (editors) *Caribbean integration from crisis to transformation and repositioning*. USA: Trafford. 249-302.

Goh, C. and Law, R. (2011) The methodological progress of tourism demand forecasting: a review of related literature. *Journal of travel and tourism marketing* 28 (3), 296-317.

Gomez-Mera, L. and Barrett, B. (2012) The political economy of preferential trade agreements: Latin America and beyond. *Latin American politics and society* 54 (1), 181-196.

Gonzalez, A. P. (2017) The Caribbean-EU Economic Partnership Agreement: A Caribbean Perspective. In Montoute, A and Virk, K. (editors) *The ACP Group and the EU Development Partnership: Beyond the North-South Debate.* United Kingdom: Palgrave Macmillan 181-209.

Gossling, S., Peeters, P. and Scott, D. (2008) Consequences of climate policy for international tourist arrivals in developing countries. *Third world quarterly* 29 (5), 873-901.

Granvorka, C. and Strobl, E. (2013) The impact of hurricane strikes on tourist arrivals in the Caribbean. *Tourism economics* 19 (6), 1401-1409.

Gray, H. P. (1966) The demand for international travel by the United States and Canada. *International economic review* 7 (1), 83-92.

Greenaway, D. and Kneller, R. (2007) Firm heterogeneity, exporting and foreign direct investment. *Economic journal* 117 (517), F134-F161.

Greenaway, D. and Milner, C. (2006) EU preferential trading arrangements with the Caribbean: a grim regional Economic Partnership Agreements? *Journal of economic integration* 21 (4), 657-680.

Greenidge, K. (2001) Forecasting tourism demand: an STM approach. *Annals of tourism research* 28 (1), 98-112.

Grenade, W. (2011) Regionalism and sub regionalism in the Caribbean: challenges and prospects - any insights from Europe? *Jean Monnet/Robert Schuman paper series* 11 (4), 1 - 25.

Grenade, W. C. (2004) Exploring the implications of European integration for the Anglophone Caribbean: From Lomé to EPA. *Jean Monnet/Robert Schuman paper series* 4 (17), 1 - 24.

Grenade, W. C. (2005) An overview of regional governance arrangements within the Caribbean Community *Jean Monnet/Robert Schuman paper series* 5 (12), 1 - 19

Gruni, G. (2012) Going from one extreme to the other: food security and export restrictions in the EU-CARIFORUM economic partnership agreement. *European law journal* 19 (6), 864-883.

Gujarati, D. N. and Porter, D.C. (2009) Basic econometrics. 5th edition. New York: Mc Graw-Hill International.

Guthrie, H.W. (1961) Demand for tourists' goods and services and in a world market. *Papers in regional science* 7 (1), 159-175.

Haley, U. C. V. and Haley, G.T. (1997) When the tourists flew in: strategic implications of foreign direct investment in Vietnam's tourism industry. *Management decision* 35 (8), 595-604.

Hanafiah, M.H.M, Haran, M.F.M and Jamaluddin, M.R. (2010) Bilateral trade and tourism demand. *World applied sciences journal (special issue of tourism and hospitality*) 10, 110-114.

Handszuh, H. (1992) Trade in tourism services under the Uruguay Round. *Tourism management* 13 (3), 263-266.

Helpman, E. (1981) International trade in the presence of product differentiation, economies of scale and monopolistic: a Chamberlin-Heckscher-Ohlin approach. *Journal of international economics* 11, 305-340.

Helpman, E. (1984) A simple theory of international trade with multinational corporations. *Journal of political economy* 92 (3), 451-471.

Helpman, E. (1987) Imperfect competition and international trade: evidence from fourteen industrial countries. *Journal of the Japanese and international economies* 1, 62-81.

Helpman, E., Melitz, M. and Rubinstein, Y. (2008) Estimating trade flows: trading partners and trading volumes. *The quarterly journal of economics* 123 (2), 441-487.

Henderson, J. C. (2001) Regionalisation and tourism: the Indonesia-Malaysia-Singapore growth triangle. *Current issues in tourism* 4 (2-4), 78-93.

Henderson, J. C. (2017) From rhetoric to reality? the ASEAN inter-governmental alliance and tourism. *Tourism and planning development* 14 (1), 50-64.

Hendler, R. (1975) Lancaster's new approach to consumer demand and its limitations. *American economic review* 65 (1), 194-199.

Heron, T. (2009) Understanding the CARIFORUM European Union economic partnership agreement. In British International Studies Association Annual Conference. University of Leicester 14th - 16th December 2009.

Heron, T. (2011) Asymmetrical bargaining and development trade-offs in the CARIFORUM EU EPA. *Review of international political economy* 18, (3), 328-357.

Heron, T. and Siles-Brugges, G. (2012) Competitive liberalisation and the 'Global Europe' services and investment agenda: locating the commercial drivers of the EU-ACP Economic Partnership Agreements. *Journal of common market studies* 50 (2), 250-266.

Hindley, B. and Smith, A. (1984) Comparative advantage and trade in services. *The world economy* 7 (4), 369-390.

Hoad, D. (2003) The general agreement on trade in services and the impact of trade liberalisation on tourism and sustainability. *Tourism and hospitality research* 4 (3), 213-227.

Hoekman, B. and Primo Brago, C. A. (1997) Protection and trade in services: A survey. World Bank policy research working paper series WPS 1747.

Hornbeck, J. F. (2008) CARICOM: challenges and opportunities for Caribbean economic integration. Congressional Research Service.

Horst, T. (1972a) Firm and industry determinants of the decision to invest abroad: an empirical study. *The review of economics and statistics* 54 (3), 258-266.

Horst, T. (1972b) The industrial composition of U.S exports ad subsidiary sales to the Canadian market. *The American economic review* 62 (1/2), 37-45.

Hosny, A. S. (2013) Theories of economic integration: a survey of the economic and political literature. *International journal of economy, management and social sciences* 2 (5), 133-155.

Hufbauer, G. A. and Stephenson, S. (2007) Services trade: past liberalization and future challenges. *Journal of international economic law* 10 (3), 605-630.

Hufbauer, G. C. (1975) The multinational corporation and direct investment. In Kenen, P. B. (editor) *International Trade and Finance: Frontiers for Research.* Cambridge University Press. 253-320.

Humphrey, E. (2008) CARIFORUM EPA Negotiations: Initial Reflections on the Outcome.

Humphrey, E. (2010) Tourism and Travel Related Services in the CARIFORUM EU Economic Partnership Agreement.

Humphrey, E. (2011) Opportunities for Investment under the CARIFORUM EU economic partnership agreement. Bridgetown, Barbados, EPA Implementation Unit, Foreign Trade Division, Ministry of Foreign Affairs and Foreign Trade of Barbados.

Husted, S. and Melvin, M. (2013) International Economics. 9th edition. Essex, England: Pearson Education Limited.

Hymer, S. H. (1976) *The international operation of national firms: a study of foreign direct investment*. Cambridge, Massachusetts Institute of Technology Press.

Im, K. S., Pesaran, M.H. and Shin, Y. (2003) Testing unit roots in heterogeneous panels. *Journal of econometrics* 115 (1), 53-74.

Ishmael, L. (2006) The OECS model of integration in the context of Caribbean regionalism. *Pensamineto Propio* 23, 37-70.

Iso-Aloha, S. E. (1982) Toward a social psychological theory of tourism motivation: a rejoinder. *Annals of tourism research* 9 (2), 256-262.

Ito, M. (2016) The Caribbean community single market and economy: the rational behind the obstacles and prospects for the integration of the Commonwealth Caribbean. *International journal of human culture studies* 26, 63-97.

Ivanovic, Z., Baresa, S. and Bogdan, S. (2011) Influence of foreign direct investment on tourism in Croatia. *UTMS journal of economics* 2 (1), 21-28.

Jackman, M. and. Greenidge, K. (2010) Modelling and forecasting tourist flows to Barbados using structural time series models. *Tourism and hospitality research* 10 (1), 1-13.

Jackson, K. (2007) Assessing the Turkey-EU customs union: shallow and deep integration. In European Trade Study Group Conference. Bradford, U.K.

Jackson, K. (2011) Reconsidering the Silk Road: Tourism in the Context of Regionalism and Trade Patterns. In Cameron, S. (editor) *Handbook on the economics of leisure*. Cheltenham, U.K: Edward Elgar.

Jackson, K. and Zang, W. (2015) Evaluating methodological issues in the tourism literature: UK outgoing tourism and trade links. *Economic issues* 20 (5), 1-41.

Jakobsen, J., Solberg, H.A., Halvorsen, T. and Jakobsen, T.G. (2013) Fool's gold: major sport events and foreign direct investment. *International journal of sport policy and politics* 5 (3), 363-380.

Jarvis, J. and Kallas, P. (2008) Estonian tourism and the accession effect: the impact of European Union membership on the contemporary development patterns of the Estonian tourism industry. *Tourism geographies: an international journal of tourism space, place and environment* 10 (4), 474-494.

Jaumotte, F. (2004) Foreign direct investment and regional trade agreements: the market size effect revisited. Washington, D.C., International Monetary Fund.

Jayaraman, T. K., Chen, H. and Bhatt, M. (2014) Contribution of foreign direct investment to the tourism sector in Fiji: an empirical study. *Tourism economics* 20 (6), 1357-1362

Jayawardena, C. (2002a) Future challenges for tourism in the Caribbean. *Social and economic studies* 51 (1), 1-23.

Jayawardena, C. (2002b) Mastering Caribbean tourism. *International journal of contemporary hospitality management* 14 (2), 88-93.

Jensen, C. and Zhang, J. (2013) Trade in tourism services: explaining tourism trade and the impact of the general agreement on trade in services on the gains from trade. *The journal of international trade and economic development* 22 (3), 398-429.

Jessen, A. and Vignoles, C. (2005) CARICOM report number 2. Institute for the integration of Latin America and the Caribbean, Inter-American Development Bank. Argentina: IDB-INTAL.

Johnny, L. and Jordan, L. (2011) Tourism and Crime in the Caribbean: A case study of St. Lucia. *Annals of leisure research* 10 (3-4), 475-497.

Johnson, H. G. (1965) An economic theory of protectionism, tariff bargaining, and the formation of customs unions. *The journal of political economy* 73 (3), 256-283.

Kantarci, K. (2007) Perceptions of foreign investors on the tourism market in central Asia including Kyrgyzstan, Kazakhstan, Uzbekistan and Turkmenistan. *Tourism management* 28 (3), 820-829.

Kao, C. (1999) Spurious regression and residual-based tests for cointegration in panel data. *Journal of econometrics* 90 (1), 1-44.

Karl, K. (2002) Economic Partnership Agreements - hopes, fears, challenges. Belgium, European Commission.

Katircioglu, S. (2009) Tourism, trade and growth: the case of Cyprus. *Applied economics* 41 (21), 2741-2750.

Kemp, M. C. and Wan, H.Y. (1976) An elementary proposition concerning the formation of customs union. *Journal of international economics* 6, 95-97.

Keum, K. (2011) International tourism and trade flows: a causality analysis using panel data. *Tourism economics* 17 (5), 949-962.

Khan, H., Toh, R.S, and Chua, L. (2005) Tourism and trade: cointegration and granger causality tests. *Journal of travel research* 44 (2), 171-176.

Khan, M. A. (2015) FDI in tourism sector in India. *International journal of multidisciplinary research and development* 2 (3), 258-264.

Kim, S. (2008) Theories and realities of FTA formation between Korea and Canada. *Korean social science journal* 35 (2), 55-78.

Kim, W. S. and Lyn, E.O. (1990) FDI theories and the performance of foreign multinationals operating in the U.S. *Journal of international business studies* 21 (1), 41-54.

Kindleberger, C.P. (1969) American business abroad. Yale university Press.

Klein, M. W. and Rosengren, E.S. (1992) The real exchange rate and foreign direct investment in the united states: relative wealth vs relative wage effects. *Journal of international economics* 36 (3-4), 373 – 389.

Kojima, K. (1973) A macroeconomic approach to foreign direct investment. *Hitotsubashi journal of economics* 14 (1), 1-21.

Kojima, K. (1975) International trade and foreign investment: substitutes or complements. *Hitotsubashi journal of economics* 16 (1), 1-12.

Kokko, A., Matha, T. and Tingvall, P.G. (2007) Regional integration and trade diversion in Europe. *Integration and trade* 26 (January - June), 205-246.

Kolstad, I. and Villanger, E. (2008) Determinants of foreign direct investment in services. *European journal of political economy* 24 (2), 516-533.

Korstanje, M. E. and Clayton, A. (2012) Tourism and terrorism: conflicts and commonalities. *Worldwide hospitality and tourism themes* 4 (1), 8-25.

Krauss, M. B. (1972) Recent development in customs union theory: an interpretive survey. *Journal of economic literature* 10 (2), 413-436.

Kreinin, M. E. (1964) On the dynamic effects of union. *Journal of political economy* 72 (2), 193-195.

Krugman, P. (1979) Increasing returns, monopolistic competition and international trade. *Journal of international economics* 9, 469-479.

Krugman, P. (1980) Scale economies, product differentiation and the pattern of trade. *American economic review*. 70 (5), 950-959.

Krugman, P., Obstfeld, M. and Melitz, M. (2012) International economic theory and policy. 8th Edition. Essex, England: Pearson Education Limited.

Krumholz, D. M. (1998) The free trade agreements and their effects on tourism: an assessment of the effects of trade liberalization on tourism within bilateral, multilateral and sub-regional trade agreements of the Western hemisphere.

Kulendran, N. and Wilson, K. (2000) Is there a relationship between international trade and travel? *Applied economics* 32 (8), 1001-1009.

Laframboise, N., Mwase, N., Park, J. and Zhou, Y. (2014) Revisiting tourism flows to the Caribbean: what is driving arrivals? Working Paper WP/14/229 Washington D.C, International Monetary Fund.

Lam, T. (2015) A review of modern international trade theories. *American journal of economics, finance and management* 1 (6), 604-614.

Lampart, C. and Lalta, S. (1991) Financial liberalisation and Caribbean economic integration. Mona, Jamaica, Institute of Social and Economic Research.

Lancaster, K. J. (1966) A new approach to consumer theory. *Journal of political economy* 74 (2), 132-157.

Lateh, M.A, Muda, A.K., Yusof, Z.I.M, Muda, N.A. and Azmi, M.S (2017) Handling a small dataset problem in prediction model by employ artificial data generation approach: a review. *Journal of physics conference series* 892, 1-11.

Lee, C. G. (2012) Tourism, trade and income: evidence from Singapore. *Anatolia: an international journal of tourism and hospitality research* 23 (3), 348-358.

Lee, E. (2005) Trade liberalization and employment. United Nations Department of Economic and Social Affairs Working Paper No.5.

Lee, M., Fayed, H. and Fletcher, J. (2002) GATS and tourism. *Tourism analysis* 7 (2), 125-137.

Leitão, N. C. (2015) Portuguese tourism demand: a dynamic panel data analysis. *International journal of economics and financial issues* 5 (3), 673-677.

Levin, A., Lin, C. F. and Chu, C.S.J. (2002) Unit root tests in panel data: asymptotic and finite sample properties. *Journal of econometrics* 108 (1), 1-24.

Lewis, V. (1988) The OECS and its current orientation for closer political union. *Caribbean affairs* 3 (1), 159-173.

Li, G., Song, H. and Witt, S. F. (2004) Modelling tourism demand: a dynamic linear aids approach. *Journal of travel research* 43 (2), 141-150.

Li, G. Song, H. and Witt, S.F. (2005) Recent developments in econometric modelling and forecasting. *Journal of travel research* 44 (1), 82-99.

Lim, C. (1997) Review of international tourism demand models. *Annals of tourism research* 24 (2), 835-849.

Lipsey, R. G. (1960) The Theory of Customs Unions: a general survey. *The economic journal* 70 (279), 496-513.

Lipsey, R. G. and Lancaster, K. (1956-1957) The general theory second best. *The review of economic studies* 24 (1), 11-32.

Lloyd, K. (2004) Tourism and transitional geographies: mismatched expectations of tourism investment in tourism. *Asia Pacific Viewpoint* 45 (2), 197-215.

Loayza, N. and Ranciere., R, (2004) Financial Development, Financial Fragility and Growth. Washington DC, The World Bank.

Lorde, T. and. Jackman, M. (2013) Evaluating the impact of Crime on tourism in Barbados: A transfer function approach. *Tourism analysis* 18 (2), 183-191.

Lorde, T. and Alleyne, A. (2018) Estimating the trade and revenue impacts of the European Union-CARIFORUM Economic Partnership Agreement: a case study of Barbados. *Global business review* 19 (5), 1129-1151.

Luzzi, G. F. (2003) Tourism and International Trade: Introduction. *Pacific economic review* 8 (3), 239-243.

Mac Dougall, G. D. A. (1960) The benefits and costs of private investment from abroad: a theoretical approach. *Economic record* 36 (73), 13-35.

Magee, S. P. (1977) Information and multinational corporation: an appropriability theory of foreign direct investment. In Bhangwati, J. N. (editor) *The New International Economic Order: The North-South Debate*. Cambridge, Massachusetts and London, England: Massachusetts Institute of Technology. 317-340.

Magee, S. P. (1981) The appropriability theory of the multinational corporation. *The annals of the American academy of political and social science* 458 (1), 123-135.

Marcy, G. (1960) How far can foreign trade and customs agreements confer upon small nations the advantages of large nations? In Robinson, E. A. G. (editor) Economic consequences of the size of nations. New York: Macmillan. 265-282.

Marjit, S. (1989) The product cycle hypothesis and the Heckscher-Ohlin-Samuelson theory of international trade. *Journal of international economic integration* 4 (1), 5-14.

Markusen, J. R. (1984) Multinationals, multi-plant economies and the gains from trade. *Journal of international economics* 16 (3-4), 205-226.

Markusen, J. R., Venables, A.J., Konan, D.E. and Zhang, K.H. (1996) *A unified treatment of horizontal direct investment, vertical direct investment and the pattern of trade in goods and services*. Cambridge, Massachusetts, National Bureau of Economic Research.

Markusen, J. R. and Venables, A.J. (1998) Multinational firms and the new trade theory. *Journal of international economics* 46 (2), 183-203.

Martins, L. F., Gan, Y. and Ferreira-Lopes, A. (2017) An empirical analysis on the influence of macroeconomic determinants on world tourism demand. *Tourism management* 61, 248-260.

Matthews, A. (2003) Regional integration and food security in developing countries. Rome: Food and Agricultural Organisation.

Mattli, W. (1999) Explaining regional integration outcomes. *Journal of European public policy* 6:1 (March), 1 - 27.

Mc Nulty, R. and Wafer, P. (1990) Transnational corporations and tourism issues. *Tourism management* 11 (4), 291-295.

Melitz, M. J. (2003) The impact of trade on intra industry reallocations and aggregate industry productivity. *Econometrica* 71 (6), 1695-1725.

Mohammed, D. A. (2009) The CARIFORUM EU Economic Partnership Agreement: impediment or development opportunity for CARICOM SIDS? In Cooper, A. F. and Shaw, T. M. (editors) The diplomacies of small states: between vulnerability and resilience. International Political Economy Series. London: Palgrave Macmillan. 160-177.

Mohan, P. and Watson, P. (2011) The impact of the financial crisis on CARICOM countries. University of the West Indies, St. Augustine Campus, Trinidad and Tobago, SALISES.

Montoute, A. (2016) Deliberate or emancipate? civil society participation in trade policy: The case of the CARIFORUM-EU Economic Partnership Agreement. *VOLUNTAS international journal of voluntary and non-profit organizations* 27 (1), 299-321.

Moore, W. and Craigwell, R. (2008) Foreign direct investment and tourism in SIDS. Evidence from the panel causality tests MPRA Paper 33438.

Moore, W. R. (2010) The impact of climate change on Caribbean tourism demand. *Current Issues in Tourism* 13 (5), 495-505.

Moosa, I. (2002) Theories of foreign direct investment. foreign direct investment theory: evidence and practice. New York: Palgrave. 23-67.

Moreira, M. M., Mendoza, E., Meardon, S. and Brambilla, I. (2007) Regional integration: what is in it for CARICOM? *Economia* 8 (1), 97-142.

Morgan, R. E. and Katsikeas, C.S. (1997) Theories of international trade, foreign direct investment and firm internationalization: a critique. *Management decision* 35 (1), 68-78.

Morley, C. L. (1992) A microeconomic theory of international tourism demand. *Annals of tourism research* 19 (2), 250-267.

Mwase, N. (2013) Tourism flows to Caribbean islands: an empirical note. *Applied economics letters* 20 (10), 957-965.

Nachum, L. (2000) Economic geography and the location of TNCs: financial and professional service FDI to the USA. *Journal of international business studies* 31 (3), 367-385.

Naryan, P. K. and Smyth, R, (2006) What determines migration flows from low income to high income countries? an empirical investigation of Fiji -U.S. migration 1972-2001. *Contemporary economic policy* 24 (2), 332-342.

Naude, W. A. and Saayman, A. (2005) Determinants of tourist arrivals in Africa: A panel data regression analysis. *Tourism economics* 11 (3), 365-391.

Nayak, D. and Choudhury, R.N. (2014) A selective review of foreign direct investment theories. ARTNeT Working Paper Series No. 143 March 2014 Bangkok, UNESCAP.

Nicholls, A. D. (2011) Investment provisions in the CARIFORUM EC Economic Partnership Agreement: What Implications for CARIFORUM EU Investment Relations?

Nicholls, S, Christopher-Nicholls, J. and Colthrust, P. (2001) Evaluating the fiscal impact of a regional economic partnership agreement between the European Union and CARICOM. Paper presented at GLM Workshop Nottingham U.K.

Nkoro, E. and Uko, A.K. (2016) Autoregressive distributed lag cointegration technique: application and interpretation. *Journal of statistical and econometric methods* 5 (4), 63-91.

Nowak, J. J. (2012) Intra tourism trade in Europe. *Tourism economics* 18 (6), 1287-1311.

Nurse, K., Stephenson, S. and Mendez, A. (2017) Tourism, trade in services and global value chains. In Keane, J. and Baimbill-Johnson, R. (editors) *Future fragmentation processes: effectively engaging with the ascendancy of global value chains*. London: The Commonwealth Secretariat. 145-158.

O' Keefe, T. A. (2010) The Role the Organisation of Eastern Caribbean States (OECS) Plays within the Caribbean Common Market and Community (CARICOM) and in the Caribbean's Relations with the World Economy. In *Conference of the International Studies Association.* New Orleans, Louisiana.

Oehler-Sincai, I. M. (2011) Brief reflections on the development of the theory of FDI *Theoretical and applied economics* 18 (11), 35-42.

Onafowora, O. A. and Owoye, O. (2012) Modelling international tourism demand for the Caribbean. *Tourism economics* 18 (1), 159-180.

Othman, R., Salleh, N.H.M. and Sarmidi, T. (2012) Analysis of causal relationship between tourism development, economic growth and foreign direct investment: an ARDL approach. *Journal of applied sciences* 12 (12), 1245-1254.

Organisation of Eastern Caribbean States https://www.oecs.org/tu-about - Accessed 3 January 2017.

Oxera (2010) How has the preferred econometric model been derived? Econometric approach report.

Paez, L. (2008) Regional trade agreements and foreign direct investment: impact of existing RTAs on FDI and trade flows in the Andean Community and implications of a hemispheric RTA in the Americas. Aussenwirtschaft 63, 1-31.

Panagariya, A. (2000) Preferential trade liberalization: the traditional theory and new developments. *Journal of economic literature* 38 (2), 287-331.

Panagariya, A. (2013) Challenges to the multilateral trading system and possible responses. Open-Assessment E-Journal 7, 1-25. http://www.economics-ejournal.org/economics/journalarticles/2013-10. Accessed 16 February 2019.

Papageorgiou, T., Michaelidas, P.G. and Tsionas, E.G. (2016) Business cycle determinants and fiscal policy: a panel ARDL approach for EMU. *The journal of economic asymmetries* 13, 57-68.

Parry, T. G. (1985) Internalisation as a general theory of foreign direct investment: a critique. *Review of world economics* 121 (3), 564-569.

Paton, T. (2003) The impact of the gats on the provision of international travel and tourism services. *International trade law and regulation* 9 (3), 77-87.

Pedroni, P. (1999) Critical values for cointegration tests in heterogeneous panels with multiple regressors: *Oxford bulletin of economics and statistics* 61, 653-670.

Pedroni, P. (2004) Panel cointegration: Asymptotic and finite sample properties of pooled time series tests with an application to the PPP hypothesis. *Economic theory* 20 (3), 597-625.

Peng, B., Song, H. and Crouch, G.I. (2014) A meta-analysis of international tourism demand forecasting and implications for practice. *Tourism management* 45 December (1), 181-193.

Peng, B., Song, H., Crouch, G.I. and Witt, S.F. (2015) A meta-analysis of international tourism demand elasticities. *Journal of travel research* 54 (5), 611-623.

Pentelow, L. and Scott, D. (2010) The Implications of climate change mitigation policy and oil price volatility for tourism arrivals to the Caribbean. *Tourism and hospitality planning and development* 7 (3), 301-315.

Pentelow, L. and Scott, D. J. (2011) Aviation's inclusion in international climate policy regimes: Implications for the Caribbean's tourism industry. *Journal of air transport management* 17 (3), 199-205.

Peric, J., Mujacevic, E. and Simunic, M. (2011) International financial institution investments in tourism and hospitality. *Journal of international business and cultural studies* 4**.** 1-17.

Pesaran, M. H., Shin, Y. and Smith R.P. (1999) Pooled Mean Group Estimation of Dynamic Heterogeneous Panels. *Journal of the American statistical association* 94, 621-634.

Pesaran, M. H. and Smith, R. P. (1995) Estimating long run relationships from dynamic heterogeneous panels. *Journal of econometrics* 68 (1), 79-113.

Petit, S. (2016) International trade in services and inequalities: empirical evaluation and role of tourism services. *Tourism economics* 23 (5), 1069-1075.

Pham, T. M. L. and Tran, T.P.P. (2015) The granger causality relationship between international tourist arrivals and foreign direct investment: empirical evidence from Turkey. In The 9th International Days of Statistics and Economics. Prague.

Pierpont, B. (2005) Violent conflict and foreign direct investment in developing economies: A Panel Data Analysis.

Pilgrim, S. and Iyare, S. (2008) Foreign direct investment and the global food crisis: a study of the Windward Islands' agricultural sector. *Economic bulletin* 3 (59), 1-15.

Plog, S. (1974) Why destination areas rise and fall in popularity. *The cornell hotel and restaurant administration quarterly* 14 (4), 55-58.

Plog, S. (2001) Why destination areas rise and fall in popularity: An update of a cornell quarterly classic. *Cornell hotel and restaurant administration quarterly* 42 (3), 13-24.

Plummer, M. G. (1997) ASEAN and the theory of regional economic integration. *ASEAN economic bulletin* 14 (2), 202-214.

Plummer, M.G., Cheong, D. and Hamanaka, S. (2010) Methodology for impact assessment of free trade agreements. Asian Development Bank.

Polat, E., Turkan, S. and Gunay, S. (2010) Relationship between tourism and trade in Turkey. In the International Conference on Applied Economics. Athens, Greece. 591-596.

Prachowny, M. F. J. (1972) Direct investment and the balance of payments of the United States: a portfolio approach. In Malchup, F., Salant, W.S. and Tashis, L (editors) *International mobility and movements of capital.* New York: 443-462.

PricewaterhouseCoopers (2004) Sector Study on the Caribbean: Tourism Services in Sustainability Impact Assessment (SIA) of the EU-ACP Economic Partnership Agreements Phase Two. Paris, France.

Proenca, S. and Soukiazia, E. (2005) Demand for tourism in Portugal: A panel data approach. Discussion Paper 29. European Union Study Centre (CEUNEUROP) University of Coimbra.

Rafindadi, A. A. and. Yosuf, Z. (2013) An Application of Panel ARDL in analysing the dynamics of financial development and economic growth in 38 Sub-Saharan African countries. Kuala Lumpur International Business, Economics and Law Conference Vol 2. Kuala Lumpur, Malaysia.

Rajapakse, R. P. C. R. (2006) The relationship between foreign direct investment and tourism development: evidence from Sri Lanka. *International journal of research in economics and social sciences* 6 (5), 183-193.

Ramasamy, B. and Yeung, M. (2010) The determinants of foreign direct investment in services. *The world economy* 33 (4), 573-596.

Reardon, J., Kling, N.D., Mc Corkle, D.E. and Miller, C. (2002) The formation of regional trading blocs: a theoretical perspective using game theory. *American business review* 20 (1), 91-98.

Revauger, J. P. (2008) Regional Integration in the Commonwealth Caribbean and the Impact of the European Union. *The round table the Commonwealth journal of international affairs* 97 (399), 857-869.

Riley, H. (2015) State of the industry report. [Speech] February 10th. Caribbean Tourism Organization. https://www.onecaribbean.org/wp-content/uploads/HughRileyStateIndustryFeb2015.pdf Accessed 7 February 2019.

Riverie, F. (1981) From ECCM and CARIFTA to CARICOM and OECS: an introduction to the development of the structure and operational facets of CARICOM's ECCM/OECS LDCs. ITC-UNCTAD/GATT-ECCM Symposium.

Robertson, P. (2002) The impact of trade liberalisation on the South African tourism industry. Trade and Industrial Policy Strategies (TIPS).

Rodriguez, M. and Portales, J. (1994) Tourism and NAFTA: towards a regional tourism policy. *Tourism management* 15 (5), 319-322.

Rodriguez, A. R. (2002) Determining factors in entry choice for international expansion. the case of the Spanish hotel industry. *Tourism management* 23 (5), 597-607.

Romeu, R. and Wolfe, A. (2011) Recession and policy transmission to Latin American tourism: Does expanded travel to Cuba offset crisis spill-overs? Working Paper WP 11/32 Washington, D.C, International Monetary Fund.

Roodman, D. (2006) How to do xtabond2: An introduction to "Difference" and "System" GMM in Stata. Working Paper Number 103. Centre for Global Development.

Root, F. R. and Ahmed, A. A. (1979) Empirical determinants of manufacturing direct foreign investment in developing countries. *Economic development and cultural change* 27 (4), 751-767.

Rosenweig, J. A. (1988) Elasticities of substitution in Caribbean tourism. *Journal of development economics* 29 (1), 89-100.

Rugg, D. (1973) The choice of journey destination: a theoretical and empirical analysis. *Review of economics and statistics* 55 (1), 64-72.

Rugman, A. M. (1985) Internalization is still a general theory of foreign direct investment. *Review of world economics* 121 (3), 570-575.

Saayman, A., Figini, P. and Cassella, S. (2016) The influence of formal trade agreements and informal economic cooperation on international tourism flows. *Tourism economics* 22 (6), 1274-1300.

Sabi, M. (1988) An application of the theory of foreign direct investment to multinational banking in LDCs. *Journal of international business studies* 19 (3), 433-447.

Sadi, M. A. and Henderson, J.C. (2001) Tourism and foreign direct investment in Vietnam. *International journal of hospitality and tourism administration* 2 (1), 67-90.

Safalki, O. V. (2005) The Extent of Foreign Direct Investments (FDI) in the Tourism Sector of Northern Cyprus. *Journal of hospitality financial management* 13 (1), 1-19.

Sahely, L. (2005) Modelling tourism demand from major international markets to the ECCU. Working Paper WP 2005/15 Central Bank of Barbados.

Salike, N. (2010) *Effect of regional integration agreement on foreign direct investment: a theoretical perspective*. Tokyo, Japan, Asian Development Bank Institute.

Salleh, N.H.M., Othman, S. and Ramachandran, R. (2007) Malaysia's tourism demand from selected countries: The ARDL approach to cointegration. *International journal of economics and management* 1 (3), 345-363.

Salleh, N. H. M., Othman, R. and Samadi, T. (2012) An analysis of the relationships between tourism development and foreign direct investment: an empirical study in selected major Asian countries. *International journal of business and social science* 2 (17), 250-257.

Salvatore, D. (2007) International economics. 8th edition. U.S.A: John Wiley and Sons.

Salvatore, D. (2011) International economics trade and finance. 10th edition. Singapore: John Wiley and Sons.

Samargandi, N., Fidrmuc, J. and Ghosh, S, (2013) Is the relationship between financial development and economic growth monotonic for middle income countries? London, Brunel University.

Sampson, G. P. and Snape, R.H. (1985) Identifying the issues in trade in services. *The world economy* 8 (2), 171-182.

Sanford, D. M. and Dong, H. (2000) Investment in familiar territory: tourism and new foreign direct investment. *Tourism economics* 6 (3), 205-219.

Santana-Gallego, M., Ledesma-Rodriguez, F. and Perez-Rodriguez, J.V. (2011) Tourism and Trade in Small Island Regions: The Case of the Canary Islands. *Tourism economics* 17 (1), 107-125.

Santana-Gallego, M., Ledesma-Rodriguez, F.J. and Perez-Rodriguez, J.V. (2016) International Trade and Tourism Flows: An Extension of the Gravity Model. *Economic modelling* 52 (B), 1026-1033.

Santana-Gallego, M., Ledesma-Rodriguez, F.J., Perez-Rodriguez and J.V. Cortes-Jimenez, I. (2010) Does a common currency promote countries' growth via trade and tourism? *The world economy* 33 (12), 1811-1835.

Saridakis, G., Sookram, S. and Mohammed, A. (2013) Does crime deter UK tourists from visiting Trinidad and Tobago? *Tourism Economics* 19 (6), 959-966.

Sauve, P. and. Ward, N. (2009a) Services and investment in the EU-CARIFORUM epa: innovation in rule-design and implications for Africa. In Faber, G. and. Orbie, J. (editors) *Beyond market access for economic development: EU-Africa relations in translation.* Oxford, U.K: Routledge. 137-172.

Sauve, P. and Ward, N. (2009b) The EC-CARIFORUM economic partnership agreement: assessing the outcome on services and investment. Brussels, Belgium, European Centre for International Political Economy.

Sauve, P. and Ward, N. (2009c) Tourism Services Liberalization. International Trade Centre.

Schloemann, H. and Pitschas, C. (2009) Cutting the regulatory edge? services regulation disciplines in the CARIFORUM-EU economic partnership agreement. In Qualmann, R. (editor) *How to ensure development friendly economic partnership agreements- lessons across regions.* Germany: Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ). 101-140.

Schubert, S. F., Brada, J.G. and Risso, W.A. (2011) The impacts of international tourism demand on economic growth of small economies dependent on tourism. *Tourism management* 32 (2), 377-385.

Seddeke, A. and Rahman, M. (2016) Evaluating the impact of the key factors on foreign direct investment: a study based on Bangladesh economy. *International journal of management sciences and business research* 5 (12), 1-6.

Seddighi, H. R. and Theocharous, A.L. (2002) A model of tourism destination choice: a theoretical and empirical analysis. *Tourism management* 23 (5), 475-487.

Seetanah, B., Juwaheer, T.D., Lamport, M.J., Rojid, S., Sannassee, R.V. and Agathee, U.S. (2011) Does infrastructure matter in tourism development? *University of Mauritius research journal* 17, 89-108.

Sen, S. (2010) International trade theory and policy: a review of the literature. Working Paper 635 Levy Economics Institute of Bard College.

Sezgin, E. and Yolal, M. (2012) Golden age of mass tourism: its history and development. In Kasimoglu, M. (editor) *Visions for global tourism industry - creating and sustaining competitive strategies.* Croatia: In Tech. 73-90.

Shan, J. and Wilson, K. (2001) Causality between trade and tourism: empirical evidence from China. *Applied economics letters* 8 (4), 279-283.

Share Center STR Global – https://www.strglobal.com – Accessed 2 June 2016.

Sheldon, P. J. and Var, T. (1985) Tourism forecasting: a review of empirical research. *Journal of forecasting* 4 (2), 183-195.

Sheng, L. and Tsui, Y. (2010) Foreign investment in tourism: the case of Macao as a small tourism economy. *Tourism geographies* 12 (2), 173-191.

Silva, S.P., Singh., R.H, Hare., P. and Thompson, K.A. (2014) Monitoring the implementation and results of the CARIFORUM EU EPA Agreement.

Simkova, E. and Holzner, J. (2014) Motivation of tourism participants. *Procedia - social and behavioural sciences* 159, 660-664.

Smith, G. (1994) Implications of the North American free trade agreement for the US tourism Industry. *Tourism management* 15 (5), 323-326.

Snorasson, S. T. (2012) The theory of trade agreements, economic integration, size of economies, trade costs and welfare. In Snorasson, S. T. (editor) *Asymmetric economic integration: size, characteristics of economics, trade and welfare*. Berlin, Heidelberg: Springer-Verlag. 9-46.

Snyman, J. A. and. Saayman, M. (2009) Key factors influencing foreign direct investment in the tourism industry in South Africa. *Tourism review* 64 (3), 49-58.

Song, H., Dwyer, L., Li, G. and Cao, Z. (2012) Tourism economics research: a review and assessment. *Annals of tourism research* 30 (3), 1653-1682.

Song, H., Li, G., Witt, S. F. and Fei, B. (2010) Tourism demand modelling and forecasting: how should demand be measured? *Tourism economics* 16 (1), 63-81.

Song, H. and Li, G. (2008) Tourism demand modelling and forecasting - a review of recent research. *Tourism management* 29, 203-220.

Sookram, S. (2009) *The Impact of climate change on the tourism sector in selected Caribbean countries*. Economic Commission for Latin America and the Caribbean (ECLAC).

Souty, F. (2002) Passport to progress: competition challenges for world tourism and global anti-competitive practices in the tourism industry.

Suresh, K. G., Gautam, V. and Kumar, M. (2011) Analysing the relationships among tourism, trade and economic growth in Indian perspective. *Journal of international business and economy* 12 (1), 1-11.

Suresh, K. T. (2002) Liberalising tourism under the gats - pitfalls for developing countries. In Hanoff, I. (editor) *At whose service? the General Agreement on Trade in Services (GATS) and its consequences for sustainable development*. Vol. 82. Berlin: Federal Environmental Agency (Umweltbundesant). 35-44.

Tahir, M., Hayat, K. and Ahmad, N. (2018) Investigating the influence of financial development indicators on economic growth: Evidence from South Asia. *Accounting and finance research* 7 (3), 9-17.

Tanaka, A. (2010) What Is "New" New Trade Theory? Research Institute of Economy, Trade and Industry.

Tang, S., Selvanathan, E.A. and Selvananthan, S. (2007) The relationship between foreign direct investment and tourism: evidence from China. *Tourism management* 13 (1), 25-39.

Taylor, G. D. (1994) The implications of free trade agreements for tourism in Canada. *Tourism management* 15 (5), 315-318.

Te Velde, D. W. and Nair, S. (2005) Foreign direct investment, services trade negotiations and development. Overseas Development Institute.

Terzi, N. (2010) The role of trade liberalization in services in developing countries. *The journal of the faculty of administrative services* 28 (1), 121-133.

Thacker, N., Acevedo, S. and Perrelli, R. (2012) Caribbean growth in an international perspective: The role of tourism and size. Washington, D.C, International Monetary Fund.

Thacker, N. and Acevedo, S. (2011) A cross-country perspective on growth in the Caribbean the role of tourism and debt. In Options for the Caribbean after the global financial crisis conference on economic growth, development and macroeconomic policy. Bridgetown, Barbados. 67-85.

Thomas, C. Y. (2010) Reflections on the CARIFORUM-EC Economic Partnership Agreement: Implications for CARICOM. In Hall, K. A. and Chuck-A.-Sang., M. (editors) *CARICOM: Policy Options for International Engagement*. Kingston, Jamaica: Ian Randle Publishers. 258-290.

Timothy, D. J. (2010) Supranationalist alliances and tourism: insights from ASEAN and SAARC. *Current issues in tourism* 6 (3), 250-266.

Timothy, D. J. and Teye, V. (2008) Regional alliances and cross border tourism in africa: border implications and the economic community of West African nations. *Tourism review international* 12 (3/4), 203-214.

Tomohara, A. (2016) Japan's Tourism-led Foreign Direct Investment Inflows: An Empirical Study. *Econometric Modelling* 52 (Part B), 435-441.

Trumm, S. (2009) Economic partnership agreements with ACP countries - the trade in services agenda: criteria for a development friendly EPA chapter on trade in services. In Qualmann, R. (Editor) *How to ensure development friendly economic partnership agreements - Lessons across regions*. Germany: Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ). 23-64.

Tsounta, E. (2008) What attracts tourists to paradise. WP/08/277. International Monetary Fund.

Turner, L. W. and. Witt, S. F. (2001) Factors influencing demand for international tourism: tourism demand analysis using structural equation modelling, revisited. *Tourism economics* 7 (1), 21-38.

UNCTAD (2007) Trade and Development. New York and Geneva: UNCTAD.

UNCTAD (2012) Regional integration and foreign direct investment in developing and transition economies.

Uyarra, M. C., Cote, I.M., Gill, J. A., Hinch, R.R.T., Viner, D. and Watkinson, A. R. (2005) Island-specific preferences of tourists for environmental features: implications of climate change for tourism -dependent states. *Environmental conversation* 32 (1), 11-19.

Uysal, M. and Compton, J.L. (1985) An overview of approaches used to forecast tourism demand. *Journal of travel research* 23 (4), 7-15.

Van Harten, G. (2010) Investment provisions in economic partnership agreements. In Hall, K. A. and Chuck-A-Sang, M. (Editors) *CARICOM: policy options for international engagement*. Kingston, Jamaica: Ian Randle Publishers. 296-307.

Van Marrewijk, C. (2007) International economics: theory, application and policy. Oxford, United Kingdom: Oxford University Press.

Van Parys, S. and James, S. (2010) The effectiveness of tax incentives in attracting FDI. WP 210/675 Universiteit Gent.

Vellas, F. (2011) The indirect impact of tourism: an economic analysis. Toulouse University.

Viner, J. (1950) The customs union issue. New York: Carnegie endowment for international peace.

Viner, J. (1955) Studies in the theory of international trade. London: George Allen & Unwin Limited.

Wagner, J. (2007) Export and productivity: a survey of the evidence from firm level data. *The world economy* 30 (1), 60-82.

Warner, R. and Anatol, M. (2014) Caribbean integration - lessons for the Pacific? *Asia and Pacific policy studies* 2 (1), 183-196.

Warnock-Smith, D. and O'Connell, J.F. (2011) The impact of air policy on incoming tourist traffic: the contrasting cases of the Caribbean Community and the Middle East. *Journal of transport geography* 19 (2), 265-274.

Wei, S. (1995) Attracting foreign direct investment: has China reached its potential? China economic review 6 (2), 187-199.

Wei, Z. (2011) Regional trade liberalisation: a theoretical review of dynamic time-path and issues. *Asian-Pacific economic literature* 25 (1), 1-14.

Whitehall, P. and Craigwell, R. (2006) *Does tourism potential influence tourism demand in the Caribbean?* Bridgetown, Barbados, Research Department, Central Bank of Barbados.

Whiteman, K. (2017) A history of the ACP-EU relationship: the origins and spirit of Lomé. In Montoute, A. and Virk, K. (editors) *The ACP group and the EU development partnership*. Palgrave Macmillan. 33-52.

Widiatedja, I. G. N. P. (2012) Towards liberalization of services in ASEAN: challenges and opportunities of ASEAN framework agreement on services on tourism*. Indonesia journal of international law* 10 (1), 65-90.

Williams, D. A. and Spencer, A. (2010) Advertising and Tourist Arrivals: Evidence from Jamaica. *Tourism and Hospitality Research* 10 (4), 359-366.

Witt, S. F. and Witt, C.A. (1995) Forecasting tourism demand: a review of empirical research. *International journal of forecasting* 11 (3), 447-475.

Wong, E. P. Y., Mistilis, N. and Dwyer, L. (2011a) A framework for analyzing intergovernmental collaboration - the case of ASEAN tourism. *Tourism management* 32 (2), 367-376.

Wong, E. P. Y., Mistilis, N. and Dwyer, L. (2011b) A model of ASEAN collaboration in tourism. *Annals of tourism research* 38 (3), 882-899.

Wong, K. N. and Tang, T.C. (2010) Tourism and openness to trade in Singapore: evidence using aggregate and country level data. *Tourism economics* 16 (4), 965-980.

Woolcock, S. (2007) European Union policy towards free trade agreements. Brussels. European Centre for International Political Economy.

Woolcock, S. (2009) The EU and the rise of regionalism European Union foreign policy unit.

Worrell, D., Greenidge, K., Downes, D. and Dalrymple, K. (1997) *Forecasting tourism demand in Barbados* In Central Bank of Barbados Working Papers, Vol. II. Bridgetown, Barbados: Central Bank of Barbados.

Worth, T. (1998) Regional trade agreements and foreign direct investment. In Burfisher, M. E. and Jones, E.A. (editors) *Regional trade agreements and U.S. Agriculture*. Vol. 771. Washington, D.C: United States Department of Agriculture. 77-83.

WTO (2011) The WTO and preferential trade agreements: from coexistence to coherence. Geneva: The World Trade Organisation.

WTO (2014) Trade Policy Review - OECS WTO Members – WT/TPR/S/299.

Yap (2011) A panel cointegration analysis of economic integration and tourism exports in ASEAN countries. *International journal of business studies* 19 (1), 91-107.

Yazdi, S.K. and Khanalizadeh, B. (2016) Tourism demand: a panel data approach. *Current issues in tourism* 20 (8), 787-800.

Yazdi, S. K., Nateghian, N. and Rezaie, N. S. (2017) The causality relationships between tourism development and foreign direct investment: an empirical study in EU countries. *Journal of policy research in tourism, leisure and events*, 1-17.

Zappino, V. (2005) Caribbean tourism and development: an overview. Maastricht, The Netherlands, European Centre for Development Policy Management.

Zhang, J. and Jensen, C. (2007) Comparative advantage: explaining tourism flows. *Annals of tourism research* 34 (1), 223-243.

APPENDICIES

APPENDIX 1. LITERATURE ON THE CARIFORUM EU EPA.

AUTHOR	FOCUS	THEME	METHODOLOGY
Gruni (2008)	Food Security and Export Restrictions	Agriculture	Qualitative
Lindsay (2013)	Regulatory and Policy Changes	Development Cooperation	Qualitative
Bernal (2008)	CARIFORUM EU EPA Negotiations: Why and How	Legal & Other	Qualitative
Girvan (2008)	The Effect of the EPA on the CSME	Legal & Other	Qualitative
Girvan (2008)	Implications of the EPA for the CSME	Legal & Other	Qualitative
Nurse et al (2008)	The EPA, Innovation and Industrial Policy	Legal & Other	Qualitative
Sabune (2008)	CARIFORUM EU EPA: The Liberalisation of Financial Services and implications	Legal & Other	Qualitative

	of the financial crisis		
Van Harten (2008)	Investment Provisions	Legal & Other	Qualitative
Heron (2009)	Understanding the CF- EU EPA	Legal & Other	Qualitative
Arthur (2010)	The Building of a Post Colonial Economy in the Caribbean	Legal & Other	Qualitative
Brewster (2010)	Anti Development Dimension	Legal & Other	Qualitative
Thomas (2010)	Reflections on the CARIFORUM-EC EPA Implications for CARICOM	Legal & Other	Qualitative
Heron (2011)	Asymmetric Bargaining and Development Trade-offs in the CF-EU EPA	Legal & Other	Qualitative
Heron (2012)	Development Alternatives	Legal & Other	Qualitative
Jackson and Wedderburn (2009)	Gender and the EPA: An analysis of the potential	Legal & Other	Qualitative

	gender effects of the CARIFORUM EU EPA		
Chase (2011)	The Most Favoured Nation Clause	Legal & Other	Qualitative
Hovius and Oettli (2011)	The Most Favoured Nation Clause	Legal & Other	Qualitative
Schmieg (2014)	Human Rights and Sustainability in free trade agreements: Can the CARIFORUM-EU EPA serve as a model?	Legal & Other	Qualitative
Schmieg (2015)	Trade and Investment for Sustainable Development? Lessons from the EU's Economic Partnership Agreement with the Caribbean	Legal & Other	Qualitative
Montoute (2015)	Deliberate or Emancipate? Civil Society Participation in	Legal & Other	Qualitative

	Trade Policy: The Case of the CARIFORUM-EU EPA		
Byiers and De Roquefeuil (2017)	Monitoring Regional Integration in Practice: Reflections from the EU-CARIFORUM Economic Partnership Agreement	Legal & Other	Qualitative
Garner (2017)	Towards a European strategy on culture and development: learning from the CARIFORUM-EU Economic Partnership Agreement	Legal & Other	Qualitative
Francis and Ullrich (2009)	Analysis of EPAs: Trade in Services Case Study of the CF-EU EPA	Trade in Services	Qualitative
Sauvé and Ward (2009)	The EC-CF EPA Assessing the	Trade in Services	Qualitative

	outcomes on services and investment		
Sauvé and Ward (2009)	Services and investment in the EC-CF EPA: Innovation in the rule design and implications for Africa	Trade in Services	Qualitative
Schloemann and Pitschas (2009)	Cutting the regulatory edge? Services Regulation Disciplines in the CARIFORUM EU EPA	Trade in Services	Qualitative
Trumm (2009)	Economic Partnership Agreements with ACP Countries – the trade in services agenda: Criteria for a Development Friendly EPA Chapter on Trade in Services	Trade in Services	Qualitative

Siles-Brügge and Heron (2012)	Competitive liberalisation and the 'Global Europe' services and investment agenda: locating the commercial drivers of the EU-ACP EPAs	Trade in Services	Qualitative
Freckleton (2013)	Revealed comparative advantage of services exports in CARIFORUM countries	Trade in services/ Market Access	Quantitative
Nicholls et al (2003)	The Fiscal Impact of the EPA	Trade Related Issues	Quantitative
Gasiorek and Winters (2004)	The role of the EPA in the Caribbean	Trade Related Issues	Quantitative
Greenaway and Milner (2006)	EU PTAs with the Caribbean: A Grim Regional EPA	Trade Related Issues	Quantitative
Busse and Lüehje (2007)	Should the Caribbean Countries sign an	Trade Related Issues	Quantitative

	EPA with the EU? Challenges and Options		
Hosein (2008)	CARIFORUM-EU EPA: The welfare impact and implications for policy Trinidad and Tobago.	Trade Related Issues	Quantitative
Mahabir (2011)	Early signals of the CARIFORUM EU EPA	Trade Related Issues	Quantitative
Dodson (2013)	The EU-CARIFORUM EPA: An assessment of the static welfare impacts on Guyana	Trade Related Issues	Quantitative
Mc Lean et al (2014)	Trade and Development nexus: reflections on the performance of trade in goods under the CARIFORUM EU EPA A	Trade Related Issues	Mixed Methods

	CARIFORUM perspective		
Lorde and Alleyne (2018)	Estimating the Trade and Revenue Impacts of the European Union-CARIFORUM Economic Partnership Agreement: A Case Study of Barbados	Trade Related Issues	Quantitative

SOURCE: AUTHOR (2018)

APPENDIX 2. DATA REGARDING OECS EPA SIGNATORIES HUMAN DEVELOPMENT INDEX[1], LAND USE[2], SECTORAL CONTRIBUTION TO GDP (2014) [3] AND SOCIO ECONOMIC INDICATORS[4].

	ATG	DMA	GRD	KNA	LCA	VCT
HDI RANK[1]	62	96	79	74	92	99
HDI	0.786	0.726	0.754	0.765	0.735	0.722
LIFE EXP'C'Y	76	77.9	73.6	74	75.2	73
GNI PER CAPITA 2011 PPP (USD)	20907	10096	11502	22436	9791	10372
LAND USE[2]						
AGRICULTURE	20.5%	34.7%	32.3%	23.1%	17.4%	25.6%
ARABLE	9.1%	8%	8.8%	19.2%	4.9%	12.8%
PERMANENT CROPS	2.3%	2.4%	20.6%	0.4%	11.5%	7.7%
PERMANENT PASTURE	9.1%	2.7%	2.9%	3.5%	1%	5.1%
FOREST	22.3%	59.2%	50%	42.3%	77%	66.7%
OTHER	57.2%	6.1%	17.7%	34.6%	5.6%	5.7%
AGRICULTURE [3]	2.2%	16.7%	6.5%	1.5%	2.8%	7.7%
INDUSTRY	18.1%	13.8%	14%	25.1%	13.2%	16.9%

SERVICES	79.8%	69.5%	79.5%	73.4%	84%	75.4%
AREA (SQ KM)[4]	440	750	340	350	616	390
POP'N (000's)	91818	72660	106825	55572	184999	109462

ATG – ANTIGUA AND BARBUDA, DMA – DOMINICA, GRD- GRENADA, KNA – ST. KITTS & NEVIS, LCA – ST. LUCIA AND VCT – ST. VINCENT AND THE GRENADINES.

SOURCE: [1] UN HUMAN DEVELOPMENT (2016)

[2] THE WORLD FACT BOOK – www.cia.gov/library/publications/the-world-factbook/

[3] UNDATA (2017) SECTORAL CONTRIBUTION FOR 2014

[4]WORLD BANK DEVELOPMENT INDICATORS (2017)

APPENDIX 3. LIST OF TOURISM AND TRAVEL RELATED SERVICES COMMITMENTS: HOTELS AND RESTAURANTS AND OTHER SERVICES OF THE SIGNATORY CARIFORUM STATES.

9. TOURISM AND TRAVEL RELATED SERVCE

A. HOTELS AND RESTAURANTS (including catering) CPC (641-643)

	LIMITATIONS ON MARKET ACCESS	**LIMITATIONS ON NATIONAL TREATMENT**
ATG, DMA, DOM, **GRD,** GUY, JAM, **KNA**, SUR, BRB, **VCT** (Excluding restaurants) BEL TTO (CPC 64110) **LCA** (Hotels and resorts in excess of 100 rooms and restaurant services CPC 641**, 642.	**ATG,** BRB, BEL, **DMA, GRD**, GUY, JAM. **KNA, LCA, VCT,** SUR, TTO: **1) Unbound*.**	**ATG,** BRB, BEL, **DMA, GRD**, GUY, JAM. **KNA, LCA, VCT**, SUR, TTO: **1) Unbound*.**
	DOM: 1) Unbound except for catering where. None	DOM: 1) Unbound except for catering where. None
	ATG, BRB, BEL, **DMA**, DOM, **GRD,** GUY, JAM, **KNA, LCA, VCT,** SUR, TTO: **2) None.**	**ATG,** BRB, BEL, **DMA**, DOM, **GRD,** GUY, JAM, **KNA, LCA, VCT,** SUR, TTO: **2) None.**
	ATG, BRB, **DMA,** DOM, GUY, **LCA,** SUR: **3) None.**	**ATG,** BRB, BEL DOM, **GRD,** GUY, JAM, **KNA, LCA**, SUR: **3) None.**
	BEL: 1) None for hotels in excess of 50 rooms: hotels of less than 50 rooms: may be subject to an economic needs test.	**DMA: 3)** Fiscal incentives under the Hotel Aid Act and the Fiscal Incentives Act may be limited to Hotels of 10 rooms or more.
	JAM: 1) None. (registration, licensing required)	**VCT**; TTO: **3) Unbound.**
	GRD: 3) Limitation on the size of the operation. Ethnic and specialty restaurants.	
	KNA: Limited to developments in excess of 75 rooms. Ownership of non-ethnic restaurants reserved for nationals.	
	VCT: 3) None, except as indicated in the horizontal commitments.	
	TTO: 1) Hotels of less than 21 rooms are reserved for nationals.	
	ATG, BRB, BEL, **DMA,** DOM, **GRD,** GUY, JAM, **KNA, LCA, VCT**, SUR, TTO: **4) Unbound except as**	**ATG**, BRB, BEL, **DMA**, DOM, **GRD,** GUY, JAM, **KNA, LCA, VCT**, SUR, TTO: **4) Unbound except as**

	indicated in the horizontal commitments	**indicated in the horizontal commitments.**
	BEL: 1), 2) None, 3) Unbound joint venture required and subject to economic needs test.	
	LCA, TTO: **1), 2), 3) None**	BEL, **LCA,** TTO, **1), 2), 3) None.**
	BEL, **LCA,** TTO: **4) Unbound except as indicated in the horizontal commitments**	BEL, **LCA,** TTO: **4) Unbound except as indicated in the horizontal commitments**
Letting services of furnished accommodation (CPC 6419) BEL, CPC 64193 and 64195. LCA (CPC 64195) TTO (CPC 64193-64196)		

D.OTHER

	LIMITATIONS ON MARKET ACCESS	**LIMITATIONS ON NATIONAL TREATMENT**
Hotel Development	**DMA,** DOM, **GRD: 1) Unbound***	**DMA,** DOM, **GRD: 1), 2), 3) None**
DMA, DOM, GRD	**DMA,** DOM, **GRD: 3) None**	
	DMA: 3) Limited to the development of hotels in excess of 50 rooms; Hotel development of less than 50 rooms may be subject to an economic needs test.	

	DOM:3) None	
	GRD: 3) Limited to the development of hotels in excess of 100 rooms; Hotel development of less than 100 rooms may be subject to an economic needs test. Main criteria: location and number of national operators	
	DMA, GRD: 4) Limited to managerial and specialist skills level and as indicated in the horizontal commitments. Subject to work permit and immigration regulations.	**DMA, GRD: 4) None**
Hotel Management	**ATG**, DOM, TTO: 1), 2) None	ATG, DOM, TTO: 1), 2) None
ATG, DOM, TTO		
	ATG, DOM, 3) None	ATG, DOM, 3) None
	TTO: 3), 4) None	TTO: 3), 4) None
	ATG, DOM: 4) Unbound except as indicated in the horizontal commitments	ATG, DOM: 4) Unbound except as indicated in the horizontal commitments
Marina Services		
ATG, BRB, BEL, **DMA,** DOM, **GRD,** GUY, JAM, **KNA, LCA,** SUR, TTO	**ATG, LCA**, TTO: 1), 2) None 3) For vessels 30-100 feet, marinas with more than 100 slips. For vessels over 100 feet, marinas with less than 100 slips.	**ATG, KNA, LCA**, TTO: 1), 2) None, 3) Government subsidies may be limited to nationals.
	BRB, DOM, JAM, GUY, SUR: 1), 2), 3) None	BRB, DOM, JAM, GUY, SUR: 1), 2), 3) None
	BEL, **GRD: 1), 2) None, 3) Unbound.**	BEL, **DMA, GRD: 1), 2) None: 3) Unbound.**
	DMA, KNA: 1) Unbound; 2) None; 3) For vessels 30-100 feet, marinas with more than 100 slips. For vessels over 100 feet, marinas with less than 100 slips.	
	ATG, BRB, BEL, **DMA,** DOM, **GRD,** GUY, JAM, KNA, LCA, SUR, TTO, **4)**	**ATG,** BRB, BEL, **DMA**, DOM, **GRD,** GUY, JAM, **KNA, LCA**, SUR, TTO, **4)**

	Unbound except as indicated in the horizontal commitments.	Unbound except as indicated in the horizontal commitments.
Spa Services		
ATG, BRB, BEL, **DMA,** DOM, **GRD,** JAM, **KNA, VCT,** SUR, TTO.	BRB, BEL, **DMA,** DOM, **GRD,** JAM, **KNA, VCT,** SUR, TTO.	**ATG,** BRB, BEL, DOM, **GRD,** JAM, SUR: **1), 2), 3) None.**
	ATG, KNA: 1), 2), None 3) Joint venture required.	**KNA: 1), 2) None; 3) Government subsidies may be limited to nationals**
	TTO: 1), 2) Unbound; 3) None.	TTO: 1), 2) Unbound; 3 None.
	VCT: 1), 2) None, 3) Unbound except as indicated in the horizontal commitments.	**DMA, VCT: 1), 2) None; 3) Unbound**
	ATG, BRB, BEL, **DMA**, DOM, **GRD**, JAM, **KNA, VCT,** SUR, TTO: 4) Unbound except as indicated in the horizontal commitments.	**ATG**, BRB, BEL, **DMA**, DOM, **GRD**, JAM, **KNA, VCT,** SUR, TTO: 4) Unbound except as indicated in the horizontal commitments.

ATG–ANTIGUA & BARBUDA, BRB–BARBADOS, BEL–BELIZE, DOM–DOMINICAN REPUBLIC**, DMA–DOMINICA, GRD–GRENADA,** GUY–GUYANA, JAM–JAMAICA, **KNA–ST. KITTS AND NEVIS, LCA–ST. LUCIA, VCT–ST. VINCENT AND THE GRENADINES AND** SUR – SURINAM.

SOURCE: ADAPTED FROM ANNEX 4F LIST OF COMMITMENTS IN SERVICES SECTOR - CARIFORUM EU EPA (2008).

APPENDIX 4. ECCU FDI BY SECTOR – PERCENTAGE SHARE 1997-2002.

SECTORS	1997	1998	1999	2000	2001	2002
Tourism	60.1	74.8	87.5	68.4	70.4	69
Manufacturing	1.5	0.2	0.4	1.3	2.8	0.4
Transport			0.4			
Utilities	0.4	9				5.7
Construction	2.9	0.9				
Sporting	2.1	6.2	1.2			
Medical					0.4	0.4
Financial					0.4	1.3
Banking	1.4		0.8	0.3		
Commercial	2.1	0.1		5.2	1.3	
Technology		1.3			2.4	1.5
Petroleum	1.5	0.7	0.3			
Education		3.1	2			
Agriculture			2.2	0.7	0.4	0.7
Other	27.9	3.7	5.2	24.2	2.2	21
Total	100	100	100	100	100	100

SOURCE: CANNONIER, FRANCIS AND LORDE (2007)

APPENDIX 5. ASSUMPTIONS OF THE MAIN TRADE THEORIES.

THEORY	ASSUMPTIONS	EMPHASIS	THEORIST
Classical Trade Theories **Absolute Advantage** **Comparative Advantage**	Labour is the only factor of production. All labour units are homogeneous. One factor of production exists. It is mobile within countries and immobile between countries. Transportation costs do not exist. Free trade takes place without Government intervention. There is perfect competition in both commodity and factor markets.	Countries should produce and export goods in which they have an advantage either absolute or comparative.	Adam Smith (1776) David Ricardo (1817)
Neo Classical Trade Theory **Heckscher-Ohlin**	Characterised by the 2 X 2 X 2 model – 2 countries each possessing 2 factors of production (labour and capital) producing 2 goods Factor mobility internally but not externally. Perfect competition and full employment exist. Barriers to trade or tariffs do not exist. Both nations use the same technology. One product is capital intensive and the other is labour intensive in both nations. Commodities produced under constant returns to scale in both nations. There is incomplete specialization in both nations. Consumer preferences in both nations are equal	Countries should specialise in the production of goods and/or services which utilise their most abundant resources.	Eli Heckscher (1919) Bertil Ohlin (1933)
Modern Trade Theory **Product Life Cycle**	Consumer preferences are non - identical	A country begins exporting goods and	Vernon (1966)

	Imperfect competition and a competitive market exist Economies of scale Externalities are apparent	then engages in producing them overseas. Foreign production becomes extremely competitive in export markets including the home country of the parent company	
New Trade Theory	Product differentiation Imperfect competition Intra industry Strategic Trade Policy Increasing returns to scale Similar technology Intra industry trade	Small number of large firms dominate trade	Krugman (1970s and 1980s) Dixit & Stiglitz (1977) Helpmann (1985)
New New Trade Theory	Firm heterogeneity Product differentiation Monopolistic competition Only highly productive firms export	Firm level data trade and productivity links	Melitz (2003)

SOURCE: AUTHOR (2018)

APPENDIX 6. TYPES OF REGIONAL INTEGRATION ARRANGEMENTS

TYPE	LEVEL OF INTEGRATION	EXAMPLES
FREE TRADE AREA	Members eliminate tariffs among themselves but keep their own tariffs against the rest of the world.	EU-CEE Association Agreements NAFTA CEFTA ANZCER
CUSTOMS UNION	Members eliminate tariffs among themselves and adopt a common tariff against the rest of the world.	MERCOSUR Andean Pact CACM SACU
COMMON MARKET	Members eliminate tariffs among themselves, adopt a common external tariff and remove impediments to movements of factors of production between member countries.	European Economic Community
ECONOMIC UNION	Members move beyond a common market to coordinate and harmonize economic policies.	European Union WAEMU
MONETARY UNION	Members share a common currency and monetary policy.	Euro Zone countries of the EU CFA Zone

SOURCE: MATTHEWS (2003)

APPENDIX 7. STUDIES OF TOURISM DEMAND CONCERNING THE CARIBBEAN

SUBJECT	AUTHORS
Advertising	Williams and Spencer (2010)
Air Transport	Warnock-Smith and O'Connell (2011) Acevedo et al (2016)
Aviation/Climate Change Mitigation Policy	Pentelow and Scott (2010) (2011) and Blanc and Winchester (2012)
Climate Change	Belle and Bramwell (2005), Uyarra et al (2005) Gossling, Peeters and Scott (2008), Sookram (2009), Moore (2010) Cashman, Cumberbatch and Moore (2012) Emmanuel (2014)
Crime	De Albuquerque and Mc Elroy (1999), Alleyne and Boxill (2003) Johnny and Jordan (2011), Lorde and Jackman (2013), Saridakis and Mohammed (2013) and Brown (2015)
Natural Disasters	Granvorka and Strobl (2013)

SOURCE: AUTHOR (2018)

APPENDIX 8. CARIBBEAN TOURISM RELATIVE CONTRIBUTION AND REGIONAL RANKING 2017.

INDICATOR CONTRIBUTION	2017 % SHARE	REGIONAL RANKING
Direct contribution to GDP	4.8	3rd
Total Contribution to GDP	15.2	1st
Total contribution to employment	13.8	1st
Contribution to investment	12.9	1st
Contribution to visitor exports	19.8	1st
Direct contribution to employment	4.3	7th

SOURCE: ADAPTED FROM WTTC TRAVEL AND TOURISM ECONOMIC IMPACT (CARIBBEAN) 2018.

APPENDIX 9. LITERATURE ON TOURISM RELATED FOREIGN DIRECT INVESTMENT 1981-2018.

Author	Subject/Geographic Focus	Type of study
Dunning and Mc Queen (1981)	The International hotel industry	Qualitative
Mc Nulty and Wafer (1990)	Transnational corporations	Qualitative
Dunning and Kundu (1995)	The hotel industry	Qualitative
Kundu and Contractor (1995)	The international hotel sector	Econometric
Peric, Mujacevic and Simunic (2011)	International financial institution investments in tourism and hospitality	Qualitative
Assaf, Josiassen and Agbola (2015)	International hotels	Econometric
Falk (2016)	The hospitality industry	Econometric
Bull (1990)	Australia	Qualitative
Dwyer & Forsyth (1994)	Australia	Qualitative
Forsyth & Dwyer (2003)	Australia	Qualitative
Haley and Haley (1997)	Vietnam	Qualitative

Sadi and Henderson (2001)	Vietnam	Qualitative
Lloyd (2004)	Vietnam	Qualitative
Kantarci (2007)	Kyrgyzstan, Kazakhstan, Uzbekistan and Turkmenistan	Econometric
Tang, Selvanathan and Selvanathan (2007)	China	Econometric
Sheng and Tsui (2010)	Macao	Econometric
Salleh, Othman and Sarmidi (2011)	Malaysia, Singapore, Thailand, China and Hong Kong	Econometric
Sharma, Johri & Chauhan (2012)	India	Qualitative
Alam, Malik, Ahmed and Gaadar (2015)	Malaysia	Econometric
Khan (2015)	India	Qualitative
Tomohara (2016)	Japan	Econometric
Rajapakse (2016)	Sri Lanka	Econometric
Dhankar (2017)	India	Qualitative
Franck (1990)	Central and Eastern Europe	Qualitative
Rodriguez (2002)	Spain	Econometric
Safakli (2005)	Cyprus	Qualitative

Buckley and Geyikdagi (1996)	Turkey	Qualitative
Jarvis and Kallas (2008)	Estonia	Qualitative
Ivanovic, Baresa and Bogdan (2011)	Croatia	Econometric
Fereidouni and Al-Mulali (2014)	OECD Countries	Econometric
Yazdi et al (2017)	European Union	Econometric
Desautels and Christensen (1990)	North America - Canada	Qualitative
Sanford and Dong (2000)	North America - United States	Econometric
Dwyer (2005)	South Pacific	Qualitative
Jayaraman, Chen and Bhatt (2014)	Fiji	Econometric
Gatsinzi and Donaldson (2009)	Rwanda	Qualitative
Snyman and Saayman (2009)	South Africa	Mixed Methods
Fauzel and Sannassee (2017)	Mauritius	Econometric
Te Velde and Nair (2006)	The Caribbean	Econometric

Barrowclough (2007)	Small island Developing States (SIDS)	Qualitative
Moore and Craigwell (2008)	6 Caribbean SIDS – Aruba, The Bahamas, Barbados, Dominican Republic, Jamaica and Trinidad and Tobago	Econometric
Williams and Deslandes (2008)	Jamaica	Qualitative
Van Parys and James (2010)	Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts, St. Lucia and St. Vincent and the Grenadines	Econometric
ECLAC (2015)	Dominican Republic and Haiti Trinidad, Surinam, Guyana, The Bahamas, Jamaica, Belize Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines and Barbados	Qualitative

SOURCE: AUTHOR (2018)

APPENDIX 10. THE TRADE -TOURISM NEXUS.

AUTHOR	GEOGRAPHIC & SUBJECT FOCUS
Easton (1998)	Canada – Commodity trade and tourism.
Kulendran & Wilson (2000)	Australia - International Trade and international travel.
Shan & Wilson (2001)	China – Trade and tourism.
Aradhyula & Tronstad (2003)	Arizona - Mexico - Tourism and cross border trade.
Khan et al (2005)	Singapore – Tourism and Trade.
Fischer & Gil-Alana (2009)	Germany – Spain international tourism and international trade.
Katircioglu (2009)	Cyprus – Tourism, trade and growth.
Fry et al (2010)	South Africa – Tourism and Trade.
Hanafiah et al (2010)	Malaysia – Bilateral trade and tourism demand
Leitao (2010)	Portugal- Trade and tourism demand.
Polat et al (2010)	Turkey – tourism and trade.
Santana-Gallego et al (2010)	World - Common currency, growth- trade and tourism.
Wong and Tang (2010)	Singapore – Tourism and Openness to trade
Chang & Lai (2011)	Europe, Asia and North America – inter and intra continental trade in travel and tourism.
Jackson (2011)	The Silk Road - tourism and regionalism.
Keum (2011)	World – international tourism and trade flows.

Santana-Gallego et al (2011)	Canary Islands – Tourism and Trade.
Santana-Gallego et al (2011)	OECD Countries – tourism and trade.
Suresh KG et al (2011)	India – Tourism, trade and economic growth.
Gautam & Suresh KG (2012)	India – International trade and tourist arrivals.
Lee (2012)	Singapore – Tourism, trade and income.
Nowak et al (2012)	Europe - Intra -tourism trade.
Brahmbhatt & Menezes (2013)	World – international trade and international tourism.
Jackson & Zang (2015)	U.K – Outgoing tourism – trade links.
Pham & Tran (2015)	Turkey – Tourist arrivals and foreign direct investment.
Santana-Gallego et al (2016)	195 countries - International Trade and Tourism Flows

SOURCE: AUTHOR (2018)

APPENDIX 11. LITERATURE REVIEW ON TRADE AGREEMENTS, TRADING BLOCS & TOURISM.

Author	Trading Agreement/Bloc	Subject Geographic Focus	Type of Study
Handszuh (1992)	GATS	Multilateral Level	Qualitative
Hoad (2003)	GATS	Multilateral Level	Qualitative
Bendell and Font (2004)	GATS	Multilateral Level	Qualitative
George and Henthorne (2007)	GATS	Multilateral Level	Qualitative
Jensen and Zhang (2013)	GATS	Service liberalization, impact on tourism receipts	Econometric
Rodriguez and Portales (1994)	NAFTA	Regional tourism policy, NAFTA	Qualitative
Smith (1994)	NAFTA	Implications of NAFTA	Qualitative
Taylor (1994)	NAFTA	Implications of NAFTA	Qualitative
Ghimire (2001)	ASEAN, SADC & MERCOSUR	Regional tourism and south-south economic cooperation.	Qualitative

		South Asia, South Africa and Argentina, Brazil, Paraguay.	
Timothy (2010)	ASEAN and SAARC	Influence of international free trade alliances/regional trading blocs on tourism development. South Asia.	Qualitative
Anastasiadou and de Sausmarez (2006)	EU and ASEAN	Trading blocs, development and management of tourism	Qualitative
Wong, Mistilis and Dwyer (2011)	ASEAN	Intergovernmental collaboration	Qualitative
Yap (2011)	ASEAN	Economic integration and tourism exports	Econometric
Widiatedja (2012/13)	ASEAN	ASEAN Framework Agreement on Services on Tourism, liberalization of services in tourism	Qualitative
Saayman et al (2016)	NAFTA EMU EU		Econometric

Henderson (2017)	ASEAN	Intergovernmental alliance and tourism	Qualitative
Timothy and Teye (2008)	ECOWAS	Cross border tourism, border implications, West African States	Qualitative

SOURCE: AUTHOR (2018)